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and BUSINESS ANALYST

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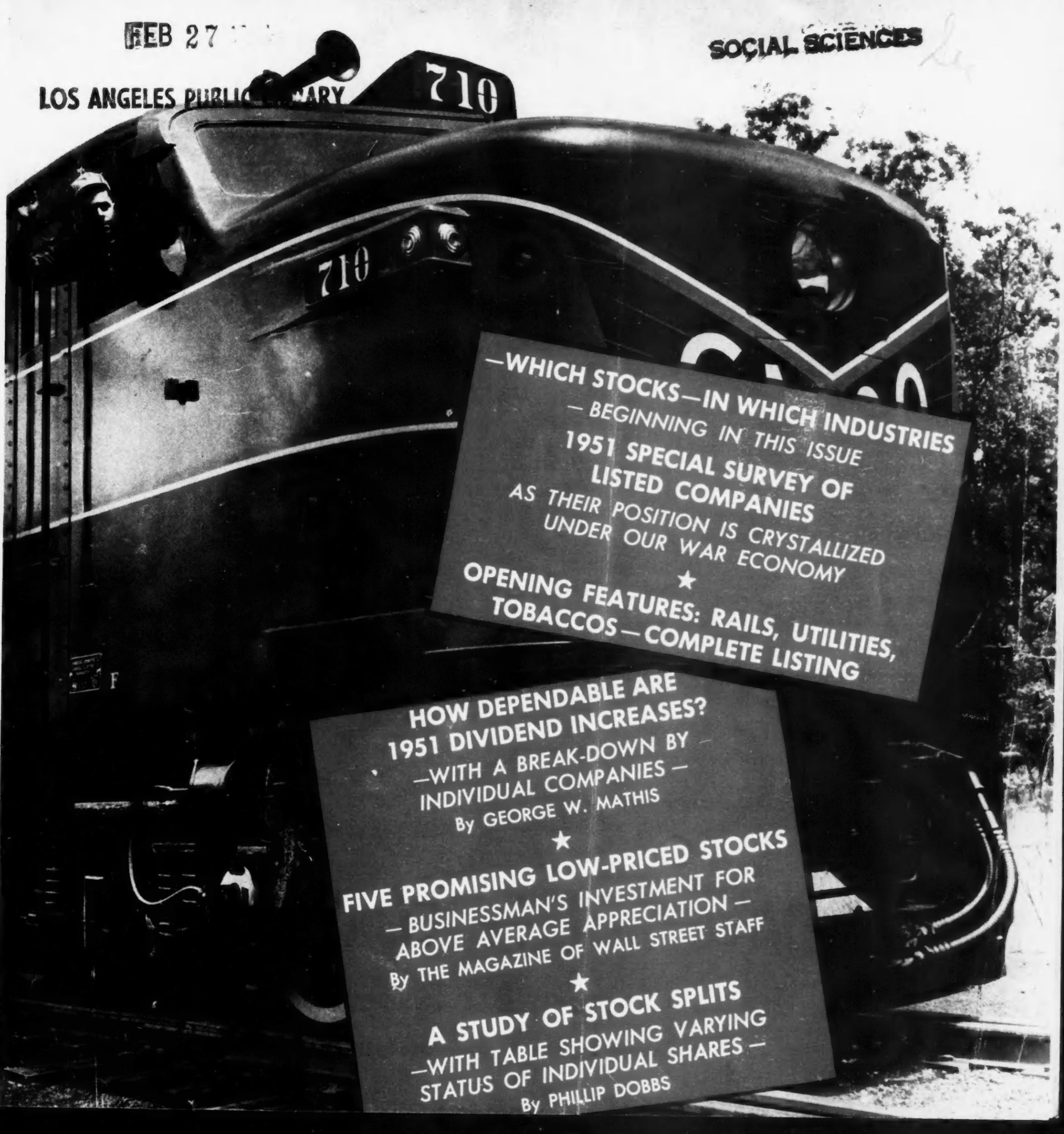

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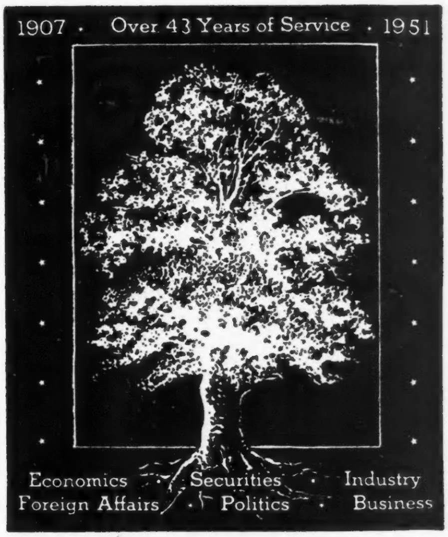
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

OBSTRUCTION . . . Seven months have passed since the beginning of the Korean war; five months since enactment of the Defense Act; two months since the President installed the mobilization high command; and about three weeks since the economy was placed under price and wage controls. With these steps, and particularly the latter one, the extent and difficulties of mobilization have become increasingly clear. The aim is to expand and control production so as to permit rearmament without cutting too deeply into the civilian economy; to control prices and wages so as to prevent ruinous inflation.

By and large, all these programs are still in their early stages, yet their execution already points up the intricate economic and political forces involved. There have been dissentions particularly on the labor front where union leaders, angry about being left out of key positions in the defense set-up, complain that this is becoming a "business man's mobilization." This attitude was manifest in the recent railroad stoppages and the latest strike in the textile industry. It has been climaxed by the walk-out of the three labor members of the Wage Stabilization Board. It was the first monkey wrench thrown into the stabilization machinery. It probably won't be the last one. Meanwhile strong Administration efforts are expected to get the labor members to reconsider their action. Under the law, the Wage Board cannot function unless there is equal representation of labor, industry and the public. In a sense, thus, any of these groups has what actually amounts to veto power. If exercised for selfish reasons, the outlook for economic stabilization is dark indeed.

The Board's labor members quit because they disliked the national formula permitting pay increases up to 10% over January 1950 levels. The formula, a creation of the Board's public members, was a compromise between demands by labor and industry members. But labor—despite the urgency of the situation—is not willing to compromise though industry is. That's why, as outlined elsewhere in this issue, we fear there is trouble ahead.

Apart from labor's desire to have a big union man installed at a high level in the mobilization command, the attitude of "let's get ours first" seems to continue to prevail even if it wrecks the whole stabilization effort. Would it not be in order to remind of the outcome of last fall's election in the state of Ohio? Not only the public at large but labor's rank-and-file are likely to take a dim view of labor leader obstruction in such critical times.

SCARE BUYING AND SHORTAGES . . . Ever since the turn of the year, there have been evidences of a strong consumer buying wave akin to, if not quite as urgent, as the one that developed shortly after the outbreak of the Korean war. The latter was relatively short-lived and had largely subsided by autumn. The new wave, mainly motivated by fear of shortages and price rises, is still fairly substantial though down from its January crest.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

Since the beginning of the year, department store sales have been 24% larger than in the same period last year and higher prices account for only a fraction of the jump. The rise essentially was due to purchase of a larger volume of goods by consumers throughout the country. It has all the earmarks of scare buying.

That such should develop is not particularly surprising. Wholesale prices and the cost of living have kept going up, and there was never a dearth of ominous predictions of coming shortages. In our view, it has led to exaggerated ideas about the scope and duration of impending shortages of consumer goods; hence the eagerness to spend.

Could it be that so as to win popular support for higher taxes, credit controls and other anti-inflation measures, advocates of these measures have overemphasized the magnitude of the immediate inflation danger? And could it be that in an effort to beat the game, and head off indicated shortages, there has been far too much hoarding and anticipatory buying than the probabilities warrant? We are inclined to believe so.

The public probably has little knowledge about prospective shortages, anticipating nothing less than a repetition of what happened during World War II. Nothing could be more mistaken. First of all, defense requirements will absorb a far smaller percentage of total production this time. Output of scarce materials is rapidly expanding, and there is real progress in developing substitute materials for use in place of scarce materials. Equally important, while certain shortages are inevitable over the nearer term, they are likely to disappear once the current expansion drive to boost industrial capacity begins to bear fruit. And that may take less time than many may think.

This supports the conviction that the total supply of consumer goods will not be cut deeply, that shortages will be moderate and temporary, that there is no need for hoarding which in itself intensifies the very inflation that consumers seek to escape. A more realistic attitude is required.

With business inventories at a historic peak of $61 billion, civilian production despite the new restrictions on materials is not likely to fold up over night. And with plenty of business "borrowed from the future" because of widespread scare buying, a fairly good demand-supply balance could be expected if consumers would decide that hoarding and scare buying is not in their best interest. Right now, there are many businesses which worry not about the goods supply but how to get rid of the stuff they have. And there is plenty, because business, too, has been hoarding.

GOLD IS WHERE YOU FIND IT . . . Gold shares, in a modest manner, have again been glittering on the New York Stock Exchange recently, accompanied by the usual rumors that the Treasury might raise its buying price of gold. Whether the rumors caused the activity in gold shares or vice versa is difficult, if not impossible to say. In cases like that it is never clear. But certainly there is no reason to believe that the latest crop of rumors is any better founded than its predecessors. It wouldn't make any sense.

Back in the days of the Great Depression, we devalued the dollar by means of a series of increases in the buying price of gold, and it was all done in the name of "controlled inflation" to offset the deep deflationary trends of that era. Today we face still rather uncontrolled inflation, despite controls, with our top authorities talking desperately about the need to halt it, or at least to slow it. Hence there would be nothing so illogical as to lift the gold price at this time, and we are quite convinced that the present Administration is unalterably opposed to it. From the President downward, no secret has been made in the past of this opposition so strongly supported by the force of logic as well as by numerous other considerations.

Thus the "gold panning" currently indulged in on the Stock Exchange must be viewed as no more than a speculative diversion, transitory and of little importance. Certainly, were the gold price to be lifted in the near future, a brand new excuse would have to be thought up and whatever it would be, it would certainly clash seriously with our avowed determination to fight inflation to a standstill.

This doesn't mean that the $35 gold price will stay forever. Nothing is permanent in this world and conceivably at some time in the future, fiscal conditions might render a change in our gold policy desirable, if not necessary. But we would hate to speculate on that distant possibility today. Canada is planning for a better gold market, that is, she may allow her gold miners to sell gold at a premium price. If so, we are not likely to follow suit at this time; but it explains why Canadian gold shares led the parade in the latest whirl. The best we can say for American gold mining companies is that price and wage controls—to the extent that these are effective—may prevent a further shrinkage in their profits. But even that doesn't render their prospects too glittering.

THE DRIVE FOR PRODUCTION . . . Through the lengthening of hours and overtime payments, American industry is currently making the most intensive use of its labor force since the last war, in its drive to meet the production targets of the rearmament effort. Reflecting this, the work week in manufacturing plants had been boosted to an average of 41.6 hours by the year-end, an increase of approximately two hours compared with the start of 1950. Since the standard work week in manufacturing is forty hours, this increase represents substantial overtime payments, hence the persistent rise in personal incomes.

Lengthening of the work week is particularly important under today's conditions since only through more intensive use of our already almost fully employed labor force can we hope to meet the manpower needs of the armed forces as well as of industry. Today there is no large unemployment pool to draw upon, a radically different situation than prevailed at the beginning of World War II.

Despite the current trend toward longer work weeks, the potentials for increasing production by working longer hours are still substantial. During most of World War II, the work week in manufacturing industries averaged about 44 hours, and was up to more than 45 hours in 1944. In other words, there is still substantial leeway in this respect, though the size of the present targets for defense may not yet be sufficiently great to call for an all-out labor effort such as was needed during the last war.

As I See It!

BY ROBERT GUISE

WAKING UP

If it is "deviationism" that Moscow fears, and it is well known that this is a cardinal sin in the eyes of the Kremlin, there are many signs that Stalin has good reason to be concerned. From the latest political crisis in Czechoslovakia and the subsequent communist purge in that country emerges one clear fact: that dissent in the satellite countries remains a deadly internal threat to Moscow's rule in Europe.

"FROM ABE TO JOE"

Marcus in The N. Y. Times

It was a real crisis alright, climaxed by former foreign minister Clementis, reported disappearance from the country. Moscow felt its control so seriously endangered that some 300 important officials of the Czechoslovakian communist Government were arrested — most of them long-standing party members of the old Czechoslovakian nationalist school. As a result of the upheaval, it is now said that a Soviet general will be named minister of war and commander of the Czechoslovakian army. As in Poland, where the armed forces for some time have been headed by a Russian general, Moscow apparently feels it cannot rely on satellite forces without direct control at the highest levels. Even the Czechoslovakian president is now closely watched by the Russians.

Moscow is having trouble elsewhere behind the Iron Curtain, even in such tightly controlled countries as Hungary, Rumania and Bulgaria where a mounting tendency towards Titoism has so far been suppressed only by the most ruthless methods. In these countries, any deviation from the Stalinist line is not only heresy but suicide. Still there is deep resentment not only over Moscow's political but also its economic domination, and it has led to growing resistance by industrial workers. In Czechoslovakia, an industrial nation second only to Russia herself within the communist empire, the danger of defection is doubly serious.

Sharp rifts in the communist front are also appearing outside the Iron Curtain as for instance in Italy where latest developments reflect a deep internal crisis in the communist party. Over thirty militant communist leaders tore up their party cards and joined Italy's mushrooming Titoist movement—in direct revolt against dictation from the Kremlin. Titoism, according to many signs, has taken root more deeply among the rank-and-file than appears on the surface. The new trend, while marxist in substance, is definitely anti-cominform.

It is regarded quite probable that the Italian split has a bearing on the Yugoslav situation. The Italian reds, in the event of a communist-inspired invasion of Yugoslavia, doubtless had an active role outlined for them by the Kremlin and didn't like the idea. In fact some of the new heretics openly accused the Kremlin of plotting war. The split high in the Italian communist party naturally raises the question, for the Kremlin, how reliable it may be in a pinch. Unwillingness to fight for Russia is a deadly sin in Moscow's eyes but that apparently is how the Italian reds feel. And their attitude may make a Yugoslavian invasion less attractive to Stalin.

Elsewhere, too, things are not going well for the communists and Moscow has every reason to be dissatisfied. For danger at the top, danger of heresy within the communist hierarchy is not as easily dealt with as trouble within the rank-and-file where terror can always be applied. Doubtless also, the turn of affairs in Korea has been a source of embarrassment.

The Kremlin by now must be aware not only that the satellite countries are somewhat less than reliable, probably ready to revolt whenever there is a promising chance, but that the attempt to undermine the democratic West by boring from within is beginning to backfire. Italian, French, German communists don't like it too well to take their orders from Moscow; they like it even less to fight for Russia. "Deviationism" is spreading and this can hardly strengthen the (*Please turn to page* 584)

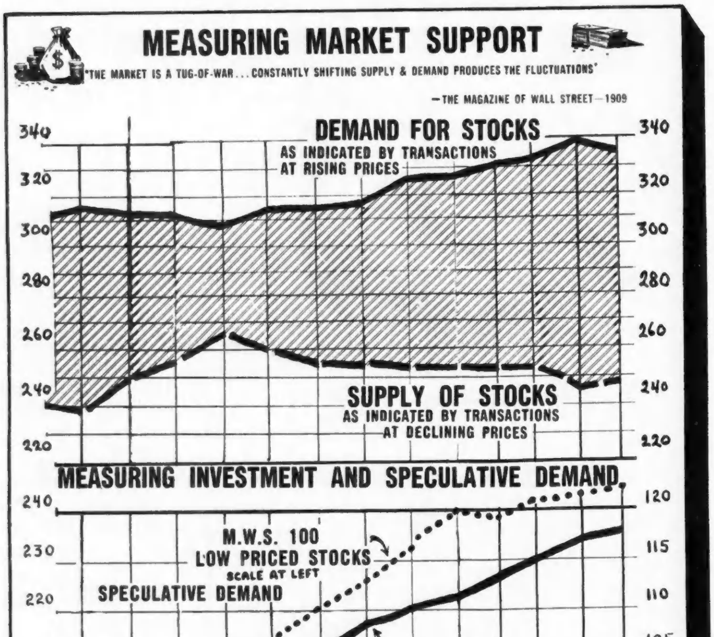
Market At Decisive Point

Changes in the averages over the last fortnight have been indecisive. Price action and volume indications suggest somewhat greater caution about medium-term prospects. Whether or not this mood proves temporary, a reasonably conservative over-all policy remains justified. We advise against general expansion of common stock holdings at present.

By A. T. MILLER

The market looks 'tired" and in need of some correction. It gave up a slight amount of ground last week, following a fortnight or so within which the advance in the daily industrial and rail indexes had slowed to a walk. A greater willingness to take some profits has been evident. On the other hand, demand has become less aggressive. There is more inclination to "wait and see", as indicated by a materially reduced average volume of trading on the New York Stock Exchange in February to date than during January and late December. Whether temporary or not, there has been a marked lessening in the previous strong investment-speculative preference for rails and war stocks in general.

On the limited technical evidence at this writing, it is impossible to say whether this will prove to be merely another minor and brief pause in the upward trend, not significantly different from previous interruptions, or whether it is the beginning of an intermediate reaction of some scope. So far as internal indications are concerned, there ought to be materially more to go on by the time of our next discussion a fortnight hence. Indeed, the next test might well be on the downside, since recessionary tendencies gathered momentum in recent days, and the industrial average currently is an insignificant distance under the top level heretofore seen.

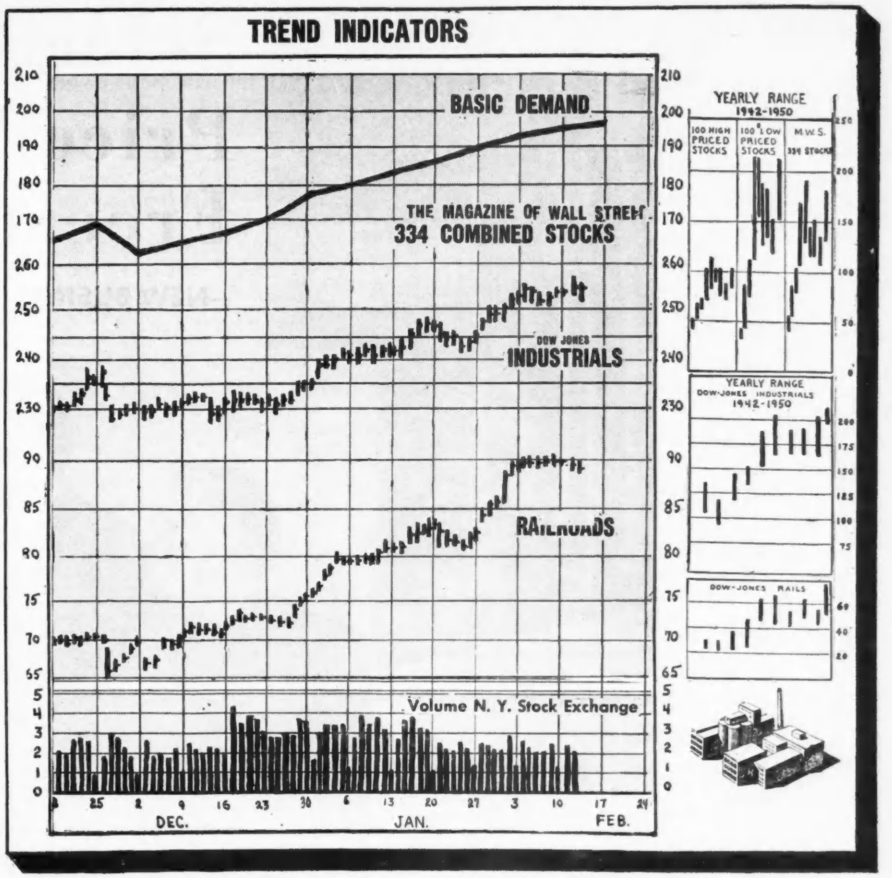


The Case For Caution

In view of assured high economic activity for the foreseeable future, and the probability of a generally satisfactory average level of corporate earnings and dividends for some time to come, we continue to see no basis for a major decline in the market. At the same time, we believe that a goodly measure of caution is in order in appraising medium-term potentialities for stock prices; and that the time is not opportune for any general expansion of holdings of common stocks. Naturally, there can always be individual exceptions to such a generality—exceptions which it is the function of our analysts to deal with elsewhere in the issues of this publication, and which have no place in this article.

One basis for medium-term caution is simply the relatively advanced level of the market, and particularly the scope of the rise in the last 10 weeks or so. The daily industrial and rail averages have risen 58% and 144%, respectively, from their 1949 lows; and, measured in points, well over a third of the entire advance in both averages has been crowded into the period since early December. Of course, that fact does not assure an imminent intermediate reaction; but it obviously does increase the chances therefor at almost any time, and it proportionately increases the risk factor on the buying side.

No rise ever continues forever without sharp shake downs; and this one has



now gone on for roughly nine months since the last intermediate reversal. For the medium-term period—the period, say, between now and late spring—we see oniy two logical alternatives. One is the development of a climactic speculative phase, which conceivably could set the stage for something more serious than the type of reversal we are presently allowing for. We think that is improbable, in the light of the recent market behavior cited early in this discussion, and for other reasons to be advanced hereafter. The other is an extensive correction — not a bear market—either soon or within no great time, and whether or not it is essentially technical or is induced by unpredictable news factors. Either way, a "wait and see" attitude in the meanwhile appears justified. Actually, an aggressive current buying policy could be a more costly mistake, given the first alternative, than given the second.

Next, it is prudent to regard this spring as a test period in foreign affairs. If Stalin has another move, or moves, of aggression up his sleeve, the time may be fairly imminent. With present indications suggesting an indefinite stalemate in Korea, official concern centers largely on Yugoslavia. Is a Russian-dictated assault to be launched; and, if so, will it lead to general war? There are plenty of pro and con opinions and guesses, but no certainty. If the result is war, or a war scare, we doubt that the market could take it in stride.

What About Peace?

On the other hand, suppose we get through spring without a Russian challenge. In that case, in view of the rising curve of American military power and our increasingly decisive strength particularly in atom bomb striking power, far-sighted investors will increasingly discount the chances for global war on Russian initiative; and should begin to think more about the time when armaments will be "running out of our ears", and when we will have more than ample industrial capacity for both arms and civilian goods. True, this is to look quite a distance ahead. But it is only a matter of months before we are producing arms at a prodigious rate; and it is surely conceivable that the military balance of power, and our need for continuous huge production of arms, may well change drastically before the summer of next year.

We are not having a government-spending inflation now; and when we get it, the effect could well be more moderate than most people now anticipate, in view of coming further boosts in taxes. We are having a great private credit-financed inflation, due to exaggerated fears of shortages and higher prices. For the time being it is being stimulated by official exaggeration of the dimensions of the inflation problem—to press the case for higher taxes—and by anticipation of the coming period of "ersatz" materials in automobiles and other durable goods. But, barring global war, there will be no serious shortages .One of these days, consumers and business concerns will find themselves bought up to the hilt. Since civilian business volume will still be dominant, a civilian business shake-down, coinciding with the industrial conversion dislocations, is not impossible.

Lower Earnings Ahead

It is apparent that in the aggregate, the best corporate earnings and dividends will be seen in the first half, since the expected higher taxes to be voted by Congress are likely to be made effective as of July 1. The concensus at Washington is that Congress, as usual, will be tougher with corporations than with individuals, since the latter vote. The EPT rate is likely to be boosted materially, even if exemptions are left unchanged. Most observers look for at least a 53% combined normal and surtax rate, against 47% under present law; and some put it at 55%, as requested by the Treasury. In a continuing sense, as we have said before, price-earnings ratios are not as low, or dividend yields as high, as they seem to be.

We believe that our general policy is a reasonably conservative one under the circumstances discussed. It stands unchanged.—Monday, February 19.

Selective Price-Wage Freeze . . . .

—NEW BUSINESS-MARKET FACTOR

Photo by Wide World

Price Stabilizer DiSalle, Defense Mobilizer Charles E. Wilson and Economic Stabilizer Eric Johnston—key figures in the defense effort. Their problems surrounding price-wage stabilization have only started.

By E. A. KRAUSS

If to-date, the price-wage freeze seems to hold a good deal less of a threat to corporate profits than initially feared, it may be well to point out that this impression may prove premature. True, there have so far been no broad roll-backs of prices squeezing existing profit margins. And there is considerable readiness on the part of the price stabilizers to re-examine hardship cases—though actual relief may be somewhat slow in coming. Yet all this doesn't mean that the price freeze – or better, price control – in its subsequent phases won't be accompanied by squeezes. It would be a miracle if it weren't, particularly if the next phase involves the fixing of profit margins. This now appears to be the next step.

So far, the price controllers have been treading softly. One reason is that they still lack the necessary organization for the job, hence it would be useless to get too tough at this stage. Another, that they are under no illusions as to the immense difficulties involved .They have the experience of the last war to draw upon and know that when they established general ceilings, their troubles were not over but had just begun.

They know that after freezing prices, they must start making exceptions and giving relief so as not to interfere with production. For general ceilings based on some arbitrary date freeze price and wage relationships which are out of balance as well as those that are balanced and workable. They freeze prices that are below replacement costs as well as those that are above. And they freeze margins that are sub-standard as well as those that are excessive. Finally, they freeze losses as well as profits, and wage rates which may be too low or too high.

The general freeze thus admittedly is a temporary expedient to be followed by numerous adjustments and much thawing, but once price relationships are better balanced, price control is bound to get tougher. Initially prices haven't been rolled back because wages couldn't be rolled back, and to the extent that future wage increases are permitted, specific price roll-backs in affected lines will become increasingly academic though the threat of a squeeze would remain unless wage boosts are fully compensated for by upward price adjustments. And this, of course, is a different matter.

Initial Roll-Backs

At present, the Office of Price Stabilization is systematically defrosting the January 25 freeze by fixing specific unrelated ceilings on various commodities. There has been only a handful of roll-backs, such as for hides and scrap iron, and for some classes of vegetable oils. Coal prices have been allowed to rise to compensate for the latest hike in miners' wages. How many more roll-backs will be undertaken, remains to be seen. Chances are there won't be too many. There will be far more hardship cases pleading for upward price revision. It is here where controls already pinch, since because of their very number, such applications cannot be processed in a hurry by the existing price control organization.

In the weeks to come, more and more commodities will get the individual ceiling treatment so far limited to a relatively few. In some cases, current ceilings

under the general freeze will simply be reaffirmed. Where such ceilings mean hardships or inequity, there will be some easing up. Where profits are demonstrably excessive, there will be roll-backs. Profits, we can be sure, will become an overriding factor in price control.

Dual Aims of Price-Wage Control

As far as prices are concerned, stable business and living costs are not the only objects of control. There is also the intent to adjust ceilings so as to encourage the production of essential goods and materials, and discourage output of non-essentials. This is to be achieved by channelling production into essential goods by letting profits go up or down through price manipulation. It is this aspect, the mixing of profit control with price control, that has currently many businessmen on tenderhooks.

There is some sort of a parallel in the wage field where wage stabilizers think rather more in terms of labor peace than of any fixed and rigid wage levels. They prefer wage flexibility, allowing for advancing living costs, fringe benefits, merit raises, seniority raises ,and even—if it is a matter of stopping strikes—a general wage rise. All of which naturally doesn't add up to a hold-the-line policy. Instead, it is more like an experiment in controlled inflation, with wages and prices pushing constantly higher, though at a slower rate than before.

Indications are that the control authorities before long will announce a formula for fixing mark-ups which producers and distributors of manufactured goods may add to their costs. These orders are expected to set the pattern for all processed goods.

They are anticipated by business with keen interest, and no little trepidation, despite the reassuring aspect that under any such plan, no one will be squeezed to the extent where he will have to sell below costs. But on the other hand, it may also mean additional roll-backs where prices have been advanced excessively to "beat" the freeze (and many have been upped in recent months for just that reason) or where profit margins are unconscionably high.

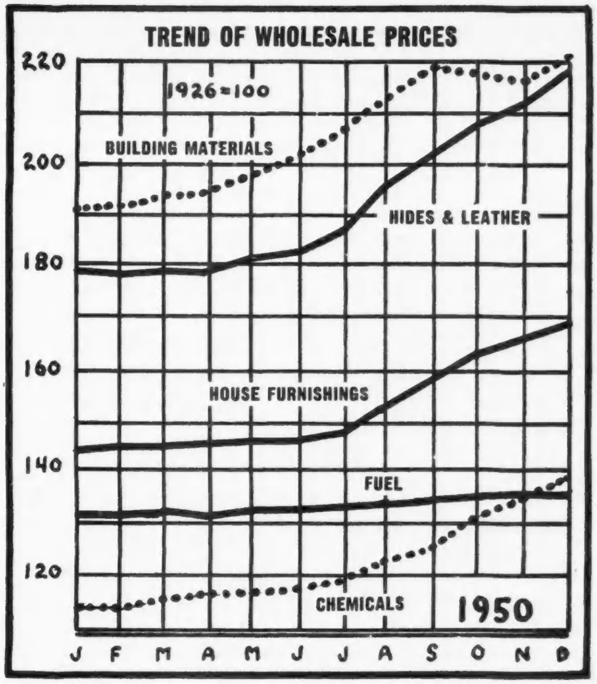
Naturally, these mark-up ceilings will be of greatest importance to every kind of business, big and small, manufacturer, wholesaler and retailer. While they will tend to avoid serious profit squeezes, they may also revive the threat of roll-backs, a potent factor in the earnings outlook of a company. The roll-back threat, in other words, which loomed so lightly in the recent past, has by no means disappeared; rather the door is left wide open for it though much depends on the formula used, and on its application.

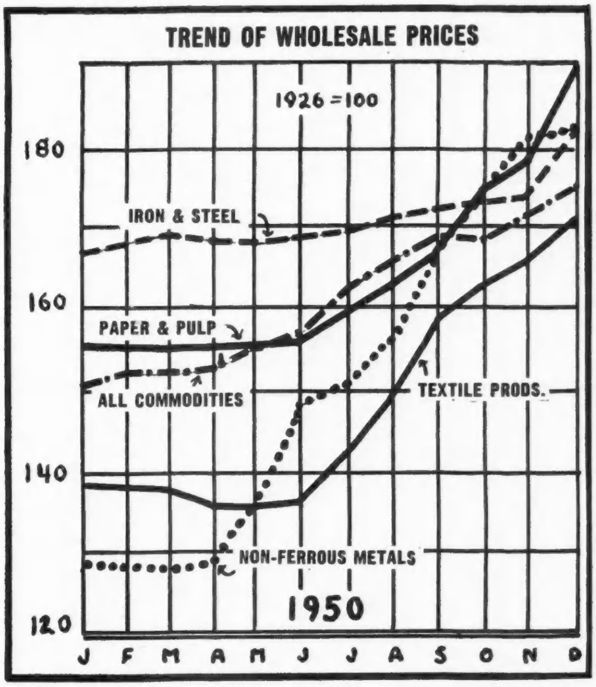
New Factor in Business

In itself, this introduces a new factor in business, and since it can vitally affect the profit picture, also in market considerations which only the inveterate optimist will ignore. The fact is that the mild form of the general freeze should by no means be looked upon as the last word when it comes to evaluating the potential impacts of price controls.

Where each industry or company allowed the same profit margin or mark-up it had before the freeze, there would probably be few complaints, since margins in the past have usually been favorable and productive of high earnings. In cases where this was not so, relief could readily be furnished by permitting higher mark-ups.

But if margins or mark-ups were fixed arbitrarily and rigidly at a level regarded "fair and proper," the door would be wide open to squeezes and numerous disputes about determination of costs. Such an approach certainly might involve a drastic cost squeeze, resulting in sharp earnings cuts. Additionally, if mark-up ceilings apply to pre-tax earnings as they probably will, higher taxes will take away a substantial part of the profit margin.





Margins could be further squeezed by allowing individual wage increases without compensatory price rises. Even where the latter are finally deemed justified and permitted, there usually is a time lag. And where profits are already high, a company will likely be asked to absorb higher wages without raising prices. That kind of squeeze can be quite painful.

End of Lush Profits?

All in all, price control through fixing profit margins or mark-ups could result in either mild or highly drastic policies depending on how the matter is handled. While there is reason to assume that a severe profit squeeze will not be forced in a period of semi-peace as now, a period in which industrial expansion is sought, the lush profits recently enjoyed by most businesses may in many cases become a thing of the past.

That is implicit not only in prospective higher taxes, restrictions on conventional production, conversion difficulties and the general array of factors that may affect output, sales and income of corporations, but also in the simple fact that it is difficult to visualize price control without a squeeze. The two are usually inseparable, and they are inevitable when price control is attempted via profit control, and when it is used to further the defense effort by directing production into desired channels.

Naturally, any profit control formula won't guarantee price stability as long as costs keep tending upwards. And from here on, there will be a succession of price increases and wage increases, and every one of them will mean a cost increase for someone. Thus the strategy of slowing the price advance—and that is really all that price control under present concepts can do—stands or falls on the mechanism that will be set up for converting cost increases into further price increases.

If such cost increases, and that applies particularly to a rising wage burden, are passed on to the full extent, price control will soon break down completely as far as the avowed aim of slowing or halting inflation is concerned. It will become a travesty, a joke. And if they are not passed on to the full extent, if they have to be partially absorbed somewhere along the line, you have the makings of a squeeze for someone, be he manufacturer, wholesaler or retailer.

That's why we say that we can hardly have price control without a squeeze; that the businessman who thinks he can get by without a squeeze, merely fools himself; that the stockholder who thinks corporate profits won't be affected by price control makes the same mistake.

The Wage Trend

Consider the wage trend. Right now, the wage freeze is being defrosted to a considerable extent, and that means higher wage costs for many businesses. 70,000 textile workers have been called out on a strike to force wage increases. And the three labor members of the Wage Stabilization Board have quit the Board in protest against a national wage formula permitting pay increases up to 10%, but no more, over January 15, 1950 levels. They considered the formula unfair and unworkable.

However that may be, it means only one thing: The sixth round of wage boosts is already under way, controls or no controls, and the wage demands are likely to exceed ten cents an hour. The auto workers will be first with their demands, and subsequently the steel workers, the electrical workers and all the others will be trying to "catch up" to the auto workers and the mine workers. And the Wage Stabilization Board, if it wants to preserve labor peace, is hardly in a position to say no. Politically it is almost impossible, what with elections coming up next year. And the defense effort must not be jeopardized.

Apart from that, we are now entering a sellers' market in labor; under such conditions it is difficult to oppose labor demands too rigidly because the labor cost spiral, in a sellers' market, can generate its own steam without much help from labor leaders or rising prices. It's simply the workings of the law of supply and demand.

As it is, workers left out in the fifth round will be allowed increases of 10%; and there will be a sixth round averaging at least that much. This being so, what about price control? It explains why the stabilizers openly admit their inability to stabilize prices until after mid-year, by which time presumably the bulk of sixth round wage hikes have been granted and translated in higher price ceilings. The big question as far as business is concerned is: How much of it does business have to absorb? How great a squeeze may be involved? What will it do to earnings?

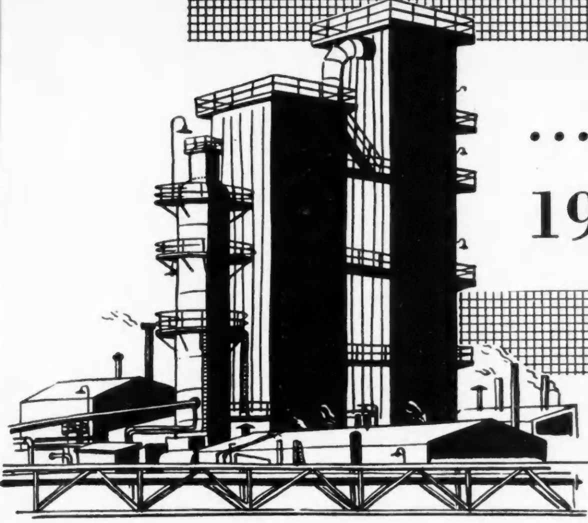
Government Policies the Key Factor

The answer of course depends entirely on Government policies. Since the political implications of labor's anger may be far-reaching, the Administration attitude towards a sixth round is not difficult to anticipate. But there is also tremendous public pressure towards effective price stabilization, a real effort to halt the price spiral. Between the two, someone will be squeezed. The likelihood is that corporate margins will undergo a critical examination. Until the question is clarified, the threat of a serious profit squeeze continues to overhang American business.

Lest this sounds too ominous, let us repeat that for reasons mentioned, no really calamitous profit squeeze is either intended or probable. This goes particularly for industries and companies essential to the defense effort. Non-essential lines will find the going harder, the squeeze probably more painful. And there will be greatly varying experiences among individual companies depending on their past and present experience.

There is another silver lining: The drive towards ever increasing production which eventually should lead to better balanced demand-supply conditions, less pressure on prices and consequently less need to counteract it by burdensome control measures. That of course is the longer range hope. It shouldn't be allowed to dim the problems of the more immediate future.

These problems are appropriately highlighted by the split in the Wage Stabilization Board, by labor's drive for greater representation in the mobilization set-up. If the union leaders gain their objectives, as they probably will, it is apt to increase the squeeze potential inherent in control action as far as business and industry is concerned. And that potential, moreover, must be added to the squeezes which must naturally be expected to develop from the Government's dual aim of rearming and industrial expansion. Its main impact is yet to come.



... How Dependable Are ...
1951 Dividend Increases?

By GEORGE W. MATHIS

In a boom year like 1950, the broad trend in numerous industries to liberalize dividend policies created litttle surprise. Net earnings of most companies rose so substantially, in particular during the last half year, that with little or no departure from conservatism it became logical to reward stockholders more generously, through increased interim payments, year-end extras or both. Thus far in 1951, however, the extension of the trend towards higher dividends seems much more significant, inviting study of its implications.

In view of the substantial array not only of uncertainties but of rather clearly marked adverse factors that face managements in the current year, it might easily be assumed that a "wait and see" attitude in respect to dividend policies would naturally develop. While increased order backlogs for either civilian or military business may be heartening, awaiting clarification by the majority of concerns are such matters as the impact of heavier taxes, price ceilings, increased working capital needs, materials supply, manpower problems, narrowing margins and before long, the possibility of renegotiated profits on production of armaments. In the circumstances, to increase dividend distributions at this early stage of the year obviously denotes unusual confidence in the profit outlook or else a reversal from former ultra-conservative dividend policies.

In the appended tabulation, we list 31 concerns that have raised their dividends since the start of 1951. In order to form a clearer picture, we show sales, net profit margins, earnings and dividends for 1949-50, and interim payments in the current year. Later on we will discuss some of these individual situations, but as a preliminary matter it is interesting to note that no less than 17 of the concerns listed in our table have lifted their regular quarterly rates. While there is nothing sacrosanct about regular rates, their employment generally suggests more stability than when no special rate is used. But even with the 14 other companies listed that follow a practice of paying no established rate of quarterly dividends, their action in upping the amount of interim payments at least implies confidence in the outlook. In general, it is also worthy of comment that six of the companies listed paid no larger dividends in 1950 than in 1949, thus may have only taken belated action to distribute more of the lush porfits earned last year.

In studying evidence of improved dividend income potentials, considerable weight should be accorded to the industrial group which a given concern represents. During 1950, favorable or moderate operating conditions in various divisions largely accounted for the dividend policies of their respective components, and the same will undoubtedly prove true in the current year. Considerable light on this subject is provided in the appended tabulation compiled by the magazine "Exchange," the official publication of the New York Stock Exchange. These statistics show the aggregate amounts disbursed by 24 important industries in 1950, and their percentage changes compared with 1949. Under the new conditions now shaping, the dividend increases shown a year hence may vary incisively from those for last year, as the defense economy assumes more definite form. The immediate concern of investors is whether recent boosts will prove stable.

Group Trends

Manufacturers of electrical equipment, steel, rubber, chemicals and aircraft were especially liberal in their dividend policies in 1950, and remain in a favorable position to maintain quarterly payments at current rates, depending on the vulnerability to heavier taxes. The same holds true of food products and oil concerns in general, while producers of paper and metals enjoy an exceptionally bright outlook. Record earnings by the automotive industry last year enabled the group to disburse 47.9% more in dividends than in 1949. A favorable EPT exemption base and the prospect of no more than a moderate decline in operating income during 1951 may make it possible for present dividend rates to be maintained, although no further gain seems likely.

In contrast, the textile group in 1950 showed a modest gain of only 5.7% in total disbursements, and now that this group is operating under boom conditions, shareholders may receive more generous treatment. Other relatively laggard dividend payers that should become more liberal in the current year include the railroads, tobacco and shipbuilding groups.

The influence of increased dividends on market prices of the shares involved is pretty well shown by examining our table of 31 concerns. The current income returns, based on 1950 distributions, of course vary a good deal, but what is noticeable is the relatively low yield on many of these issues, with the average for the entire group less than 5.4%. It would seem that investors have discounted the probability that higher dividends declared in the current year will hold during 1951, and in some cases might even be further improved. On the other hand, there are a few instances where a high yield might be viewed as reflecting uncertainty over dividend stability despite the recent increase. In the circumstances, it is appropriate to discuss the dividend outlook of some of the concerns listed.

General Tire & Rubber Company's recent action of doubling the regular quarterly dividend to 50 cents a share from 25 cents was exceedingly conservative in view of dynamic progress in both sales and earnings last year. 1950 volume of $125.3 million was 36% higher than in 1949, while net earnings soared to $13.88 per share compared with only 94 cents the year before. Had not the company in 1950 adopted a last-in- first-out method of inventory accounting, an additional $2.46 a share would have been earned. Record volume, several price raises and improved cost controls contributed to the sharp spurt in earning power, the latter achieved despite heavier taxes.

Average earnings of better than $8 per share in the exemption base period provide good shelter against excess profits taxes under normal conditions, but the company is vulnerable with earnings at the 1950 level. Including three extra dividends paid last year, total payments of $3 per share represented less than 22% of net income, hence the amount retained plus allowances for depreciation undoubtedly swelled working capital to record proportions, although a year earlier a current ratio of 4.5 was reported, a very satisfactory status by any standards. As General Tire is well situated to capture a liberal share of military business, and the major portion of its civilian output goes to replacement markets, the company's outlook for high level earnings in the current year is bright. All said, occasional extras should continue to supplement the modest 50 cents quarterly dividends now in effect.

Encouraging prospects rather than substantially increased earnings induced the directors of Monarch Machine Tool Company recently to pay a 30 cents quarterly dividend compared with 25 cents throughout 1950 (adjusted for a 2-1 stock split). This relatively small specialist in the production of high-speed modern metal-working equipment reported sales of $7.4 million in 1950 versus $6.6 million in 1949, while net earnings advanced slightly from $1.33 per share to $1.42 last year. Comfortable finances permitted distribution of $1 per share dividends in 1949-50, absorbing a rather generous share of profits.

The great need for up-to-date machine tools in

Companies Which Have Recently Increased Their Dividends

	Net Sales 9 months 1950 ($ millions)	Net Sales Full 1949 ($ millions)	Net Profit Margins 9 months 1950	Net Profit Margins Full 1949	Net Per Share 9 months 1950	Net Per Share Full 1949	Dividends Per Share 1950	Dividends Per Share 1949	Interim Payments Raised From	Interim Payments Raised To	Recent Price	Yield† %
Amerada Petroleum	$	$ 58.0	...... %	24.7%	$ 6.92	$9.12	$6.00	$5.00	$ .75Q	$1.00Q	174½	3.4%
American Natural Gas	75.0[3]	59.0	10.2[3]	9.0	2.27[3]	1.74	1.20	1.20	.30	.40	29¼	4.1
American Viscose	193.7	194.6	12.8	10.3	5.86	4.66	2.50	2.00	.37½	.50Q	63¾	3.9
Atlantic Coast Line R.R.	96.4	122.9	8.5	6.3	9.95	9.39	4.00	4.00	1.00	1.25	79¾	5.0
Atlantic Refining	......	446.4	......	6.0	13.09[4]	9.51	2.75	2.00	.75Q	1.00Q	69⅜	3.9
Brooklyn Union Gas Co.	42.2[4]	39.7	7.0[4]	8.1	3.60[4]	4.32	2.25	1.30	.50	.60	38¾	5.8
City Stores	139.8	182.3[5]	1.4	2.5[5]	1.16	2.71[5]	1.20	1.20	.30Q	.35Q	21	5.7
Columbia Gas System	111.3	123.8	11.3	9.8	.85	.84	.75	.71¼	.18¾Q	.20	13⅜	5.6
Gair (Robert) Co.	39.0	42.8	10.2	6.2	2.10	1.31	1.00	.70	.10	.15	13⅛	7.6
General Tire & Rubber	125.3[4]	92.5	6.8[4]	1.1	13.88[4]	.94	3.00	2.00	.25Q	.50Q	44⅛	6.7
Hooker Electrochemical	27.4[4]	21.8	14.0[4]	11.8	3.84[4]	2.64	2.00	1.20	.40Q	.50Q	49¾	4.1
Inland Steel	461.3[4]	345.8	8.2[4]	7.2	7.76[4]	5.11	3.50	3.00	.50Q	.75Q	60⅛	5.8
Kress (S. H.) & Co.	161.6[4]	163.9	......	6.1	4.65[9]	4.27	3.00	3.00	.50Q	.75Q	55½	5.4
Lee Rubber & Tire	39.6[4]	31.9	8.6[4]	3.8	13.34[4]	4.78	5.00	3.00	.50Q	.75Q	64½	7.7
Louisville & Nashville R. R.	203.0[4]	177.3	12.0[4]	4.6	10.39[4]	3.51	3.52	3.52	.88Q	1.00	57¼	6.1
Marathon Corp.	68.2[4]	60.0	9.5[4]	7.5	4.84[4]	3.29	1.50	1.40	.45Q	.50	43½	3.4
May Department Stores	183.1[8]	392.5[5]	3.8[8]	4.6[5]	2.21[8]	5.79[5]	3.00	3.00	.75Q	.90Q	67½	4.4
Monarch Machine Tool	7.4[4]	6.6	8.0[4]	8.4	1.42[4]	1.33	1.00	1.00	.25	.30	20¾	4.8
National Container	30.3	31.4	11.8	8.2	1.31	.95	.75	.50	.15Q	.20Q	12¼	6.1
Pittsburgh Coke & Chemical	25.5	22.8	8.5	8.2	3.73	3.14	1.20	.95	.20Q	.25Q	21¾	5.5
Quaker State Oil Refining	36.4	43.4	6.1	7.0	2.40	3.28	2.00	1.60	.40Q	.50	27¾	7.2
Seaboard Oil	20.1	26.6	18.7	21.7	3.08	4.71	2.60	2.00	.40Q	.50	82	3.2
Sheaffer (W. A.) Pen	16.6	19.3[6]	15.0	14.0[6]	3.06	3.34[6]	2.85	1.60	.10Q	.30Q	28½	10.0
Southern Natural Gas	36.0[10]	32.0	16.7[10]	5.8	3.89[10]	3.27	2.15	2.00	.57½Q	.62½Q	40¼	5.3
Southern Railway	239.9[4]	212.7	9.3[4]	5.6	14.94[4]	6.87	3.00	4.00	.75Q	1.00	61½	4.8
Standard Oil of California	594.0	742.5	18.0	18.5	7.47	9.62	5.00[1]	4.00[1]	.50Q	.65[2]	97⅛	5.1
Sunray Oil	61.7	95.9[7]	23.0	21.4[7]	1.75	2.81[7]	1.00	1.00	.25Q	.30Q	20⅛	4.9
Texas Gulf Producing	9.8[4]	9.2	31.3[4]	36.7	2.78[4]	3.13	1.25	1.00[1]	.25Q	.35Q	27	4.6
Texas Pacific Coal & Oil	11.0	13.2	39.4	48.0	2.45	3.58	1.50	1.75	.25Q	.35	39½	3.7
United Carbon	21.5	21.5	11.6	19.8	3.14	5.36	2.10	2.00	.60Q	.62½Q	47¾	7.5
Westinghouse Electric	735.6	945.6	6.6	7.1	3.38	4.95	2.00	1.40	.40	.50Q	37⅜	5.3

†—Based on 1950 dividends.
Q—Quarterly rate.
1—Plus stock.
2—Rate on new stock.
3—12 months ended Sept. 30, 1950.
4—Full year 1950.
5—Year ended January 31, 1950.
6—Year ended February 28, 1950.
7—Pro Forma Combined Income Account.
8—6 months.
9—Estimated full year.
10—12 months ended Oct. 31, 1950.

connection with the defense program assures Monarch Machine Tool of high-level sales for an indefinite period ahead and the company's backlog orders are accumulating rapidly. At the time the common stock was split last December, the management hinted that it might be necessary to attract additional working capital in order to handle larger business under the defense program, and stockholders had authorized an increase in the common stock in excess of the amount needed for the split. It seems probable, accordingly, that the improved dividends were designed to enhance the attraction of the common stock if occasion should arise to issue more of it. In view of the company's encouraging outlook, current quarterly dividend payment will likely prove stable.

Stockholders of American Viscose Corporation received ample advance notice that the dividend rate would be raised to 50 cents quarterly from 37½ cents formerly. Last October when the directors proposed a two-for-one stock split, they announced intention to establish a regular $2 annual rate on the new shares. This action was encouraged by record earnings of $5.82 per share for the first nine months of 1950, without allowing for retroactive EPT, but adjusted for the subsequent subdivision of the shares. As large earnings in 1947 and 1948 established a high EPT exemption base for this company and last year's final quarter was very profitable, the management has hinted that net income for all of 1950 probably reached a new high of better than $29 million or close to $7 per share. Based on the improved earnings, the directors in December paid an initial extra dividend of $1 on the newly split shares.

American Viscose is the largest producer of rayon, with a record output of 400 million pounds last year, and with well assured prospects of at least matching this in 1951. Further substantial growth should follow upon completion of a new multi-million dollar plant for the production of acrylic fibers by Chemstrand Corporation, jointly owned by American Viscose and Monsanto Chemical Company. Indications are strong that at a recent price of about 64, the 1951 yield on Avisco shares may be nearer 5% than the 3.9% on basis of last year's dividends.

Inland Steel Company

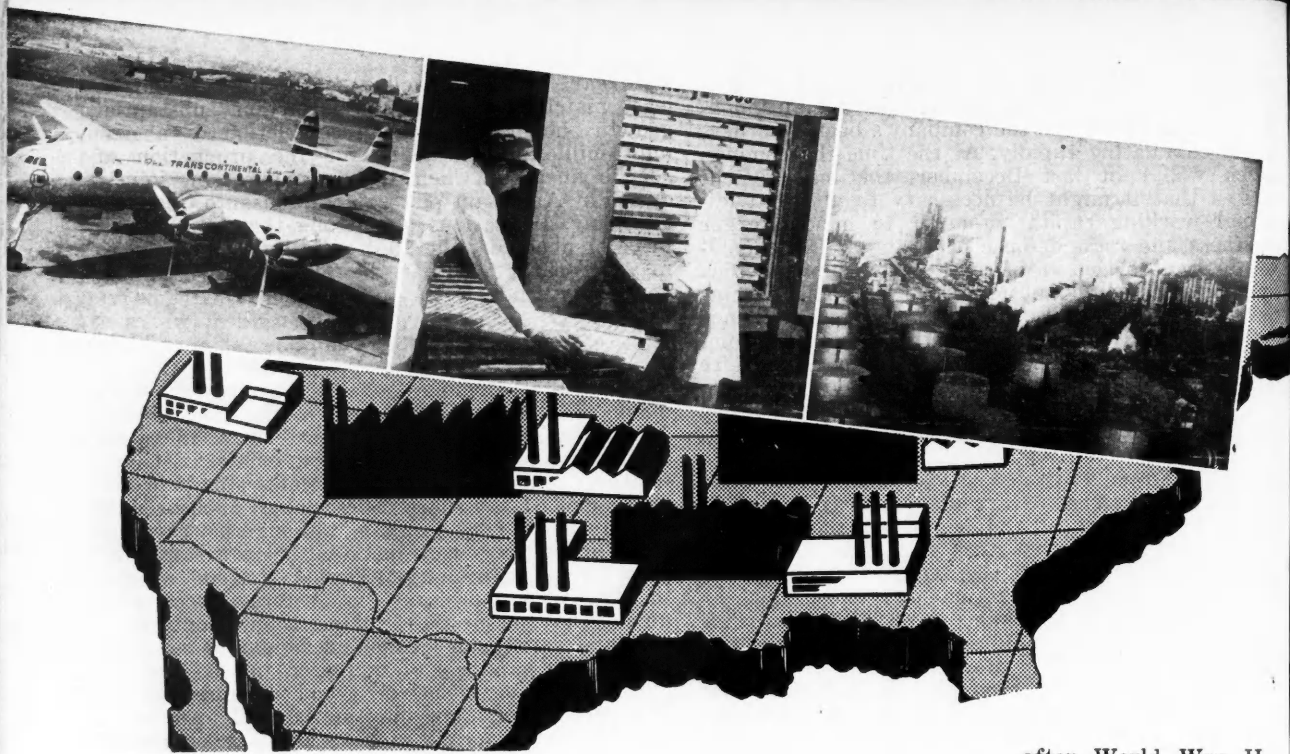
Inland Steel Company, one of the most efficiently managed concerns in its group, declared in late January a 75 cents a share quarterly dividend, 25 cents above previous quarterly payments. Last September, though, an extra of 50 cents was paid and another of $1 per share in December. 1950 brought record sales of $461.3 million, although net earnings of $7.76 per share were just a bit below the previous peak for the corresponding period of $7.88 reported in 1948. With operations certain to strain capacity during the current year, volume should continue to rise and satisfactory earnings should be achieved despite the handicap of increased taxes.

Inland Steel's relatively good earnings in the 1946-49 period provide substantial protection against excess profits taxes, and the company's large-scale plant improvements should effect numerous cost savings. Altogether, confidence in the stability of the increased 75 cents quarterly rate is warranted, and there is considerable promise of a liberal year-end extra dividend. In other words, the current yield of 5.8% seems dependable, with a fair chance for improvement. As Inland Steel plans to increase ingot capacity by (*Please turn to page* 574)

Dividend Payments in 1950 on Common Stocks Listed on the N. Y. Stock Exchange

Industry	No. of issues Listed 12/31/50	Number Paying Cash Dividends 1949	Number Paying Cash Dividends 1950	Number Paying Increased Dividends	Number Paying Same Dividends	Number Paying Reduced Dividends	Estimated Aggregate Amount of Dividend Payments 1949	Estimated Aggregate Amount of Dividend Payments 1950	Per Cent Change
							(000)		
Aircraft	24	12	18	12	4	2	$ 35,421	$ 46,566	+31.5%
Amusement	22	19	18	10	7	2	54,475	71,409	+31.1
Automotive	72	59	61	43	14	5	520,271	769,683	+47.9
Building Trade	30	29	29	20	6	3	71,377	83,767	+17.4
Chemical	80	72	75	54	18	3	493,169	670,482	+36.0
Electrical Equipment	20	18	18	14	3	2	100,712	168,225	+67.0
Farm Machinery	7	7	7	5	0	2	50,232	60,977	+21.4
Financial	31	30	30	28	2	0	81,967	116,546	+42.2
Food Products & Beverages	68	63	61	35	21	8	216,356	233,233	+ 7.8
Leather & Its Products	11	10	9	4	3	3	20,384	19,203	— 5.8
Machinery & Metals	103	98	99	66	23	11	161,798	201,042	+24.3
Mining	39	30	32	17	6	10	145,303	183,630	+26.4
Office Equipment	10	9	9	4	4	1	31,773	34,703	+ 9.2
Paper & Publishing	36	33	31	22	8	4	69,541	83,343	+19.8
Petroleum & Natural Gas	46	43	43	27	12	5	577,822	709,006	+22.7
Railroad & R. R. Equipment	80	57	61	27	28	7	228,599	240,649	+ 5.3
Real Estate	10	7	9	6	3	0	14,663	15,951	+ 8.8
Retail Trade	71	63	64	22	34	9	244,869	270,993	+10.7
Rubber	9	8	8	7	1	0	32,627	43,583	+33.6
Shipbuilding & Operating	11	9	10	3	4	3	15,320	14,838	— 3.1
Steel & Iron	39	36	36	31	4	1	190,613	275,781	+44.7
Textile	43	43	42	23	8	12	83,717	88.500	+ 5.7
Tobacco	16	15	15	4	9	2	79,669	82,409	+ 3.4
Utilities	100	86	93	63	28	2	579,333	697,975	+20.5
U. S. Cos. Oper. Abroad	25	20	19	13	4	4	64,364	73,112	+13.6
Foreign Companies	18	15	16	6	7	3	94,505	110,537	+17.0
Other Companies	18	17	17	13	4	0	25,916	37,521	+44.8
Total	1,039	908	930	579	265	104	$4,284,796	$5,403,664	+26.1%

Source: Magazine "The Exchange."



Today's Defense Expansion

—Tomorrow's Population Necessity

By WARD GATES

The widely held thought that we must build up our productive capacity if we are to face either a shooting war or a long period of defensive preparedness is automatically posing the question: What about this additional industrial capacity if no shooting war occurs; if the need for preparedness lessens; if, in other words, we can return in a number of years to a more or less normal peace-time economy? Won't we then find ourselves with an over-built plant—with considerable excess capacity in major industrial fields?

Questions of this sort have led to an entirely appropriate debate as to how far expansion should be pushed. No one doubts that expansion of our total national output, with selective emphasis on vital lines of production, is needed to help ease the immediate burden of our enlarged defense objectives. But there is considerable dissention whether it is economically sound to expand productive capacity to the point where output can take care not only of stepped-up military requirements but of unrestricted civilian needs as well.

To go that far, it is argued, would merely invite serious difficulties later on when military needs lessen. While the combination of guns and butter is admittedly possible and in many ways desirable, some observers see therein the seeds of severe deflationary impacts in the event of a sudden cessation or marked decline of military production.

The argument is not without logic, of course. Industry has been greatly expanded both during and after World War II, enough—it is thought—to take care of civilian needs under normal prosperous conditions. For all of 1950, the gross national product is estimated at about $279 billion, rising from a $263 billion annual rate in the first quarter to a $297 billion rate in the final quarter. Admittedly the latter half was greatly stimulated by extraordinary factors arising from the Korean situation; yet industry was able to meet all needs without undue strain.

The current defense planning is based primarily on the idea of expanding production sufficiently so that a $50 billion arms program can be superimposed on a continuing $275 billion civilian economy within the next two years. While this would imply a (temporary) $25 billion cutback in civilian goods output from the high production rate prevailing during the latter part of 1950, it would nevertheless bring the nation's output to a record breaking $325 billion a year, or $25 billion more than the rate in the final 1950 quarter.

Long Range Planning

Official planning anticipates within that two-year period production rising to a point where—always barring all-out war—present controls and restrictions could be lifted or greatly relaxed as overall civilian output again approaches the 1950 rate. Longer range plans go even beyond that, towards a $350 billion annual gross product.

Even more acute in the latter case would become the question: What if there should be a sudden cessation or marked reduction of military production? The big bogey, of course, is that with the tremendous excess capacity seemingly implicit in such a program, a deep depression would be inevitable. Rather than

take this risk, it is contended, we should do a little more belt-tightening now and stop aiming at all the butter on top of all the guns needed, and thereby avoid unwelcome overexpansion of industry.

In examining the pros and cons of the situation, two primary aspects present themselves. One is that our defense strategy does not now rest on the inevitability of total war but on a sufficiently rapid build-up of military strength to deter aggression, while at the same time creating an industrial mobilization base which would facilitate rapid achievement of maximum military effort if that should become necessary. But since this strategy must also contemplate a substantial increased military burden of indefinite duration, it must allow for taking care of industrial and consumer needs at a considerably higher level than would be possible or permissible in an all-out war.

Industry's Dual Job

In other words, since the need for an expensive military establishment is likely to persist for a long time, the long range hope now is for an economy big enough for the dual job of maintaining large service forces and still being able to supply civilian needs without anything approaching austerity.

The other and certainly no less important aspect from the standpoint of our discussion is the factor of long term economic growth, the possibility that today's expansion for defense will ultimately turn out to be fully justified from a purely economic viewpoint. What are the prospects?

Before answering this question, it is well to look back at what happened after World War II. Essentially the enormous postwar industrial expansion was spurred not so much by the need or desire to meet pent-up civilian demand but by the definite prospect of permanently broader domestic markets. Nothing else would have warranted industry's embarking upon an expansion program so huge, were it not for the existence of a far more basic element: The rapid growth of our population during and after the war, pointing to vastly greater markets for every type of consumer goods and requiring a greater labor force to take care of their needs.

In short, primarily back of postwar expansion was the population boom and the lessons of the past that accompanied the growth of the nation. *And our population is still growing by leaps and bounds, remaining a major factor in our economy.*

The 1950 census, taken as of April 1 of that year, recorded a population of 150,697,361. By the end of 1950, the official estimate was revised upward to 152,340,000, a gain of some two million. By the end of 1955, it is now estimated that the total may approximate 167 million, adding another 14 million for the five-year period or roughly as much as the increase that occurred in the 1943-50 period. Any such increase is bound to have vital economic connotations, for, as has been aptly remarked, the starting point of all markets is people.

The growth of our home market has been tremendous in the last decade. With our large industrial plant, we need a big domestic market to keep it functioning at a high level. By the same token, with further substantial population growth clearly indicated, we can use further expanded industrial capacity to serve the broadening domestic market. Herein, we think, lies the answer to our question. The continued growth of America's population should go far towards removing the threat of overcapacity which some fear may develop from our accelerated program of industrial expansion for defense, by providing progressively larger markets for the output of industry.

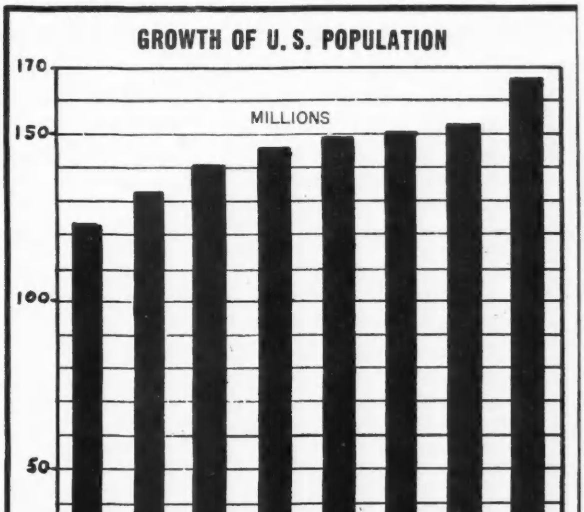
Consider these figures as far as the last decade is concerned: (1) The increase in population between 1940 and 1950 amounted to about 15%. (2) There were 17.5 million marriages and 33 million births in the last decade. (3) Forty per cent of all U. S. families are new families formed since 1940. Individually and combined, these factors have stimulated our postwar economy far more than pent-up demand because of war-time shortages, and the latter have by no means been fully satisfied in all fields.

Now, instead of an expected slow-down in the rate of population growth, a speed-up is actually indicated. Marriages and births are back to high figures and show no signs of declining. Postwar prosperity must be given much credit for this development, what with income high and virtually no unemployment. Assurance that the trend may continue is seen in the prospect of sustained prosperity in the foreseeable future, making for enhanced job security and well sustained purchasing power.

The threat of possible war far from negates these influences; as in the past it adds a powerful boost to family formation. Actual occurrence of total war would of course change the outlook. But barring such an event, the population curve is likely to rise fairly much as indicated by existing trends.

Expanding Demand Potentials

One cannot escape the conclusion that if the growth of population during the last decade has built a more solid foundation for American business, further growth as indicated will make the task of meeting resulting demands even bigger, particularly because it represents a market which possesses tremendous purchasing power. It should mean demand for all sorts of durable goods possibly at a level even somewhat higher than (*Please turn to page* 582)



RAIL STRIKE AFTERMATH

By E. K. T.

LONG OVERDUE is the action by the House foreign affairs committee (likely soon to be copied by other committees on both sides of the Capitol) to call in authors of pending bills, give them 15 minutes to explain provisions and purposes, before receiving any other witnesses. Newsmen of long experience in covering committee hearings have been aware that congressmen, cross-examining persons appearing before them, hadn't the vaguest idea of what the suggested legislation was about, were seeking to fill that void of knowledge. Businessmen have dreaded appearance before some congressional groups on that account. The speedy "briefing" will be a welcome corrective.

WASHINGTON SEES:

White House handling of the rail strike brought heaping criticism on the executive method of dealing with labor strife and will underscore demands for a different method of coping with national emergencies, both management and the unions seeking that goal.

It is not what the Steelman office did, but what it failed to do; inaction, rather than faulty action. When the President personally took a hand it was not in the spirit of conciliation but in a mood of bitter condemnation directed at the railroad employees who already had waited two years for adjustment of their grievances.

For many months it has been obvious that Dr. John Steelman, the President's assistant, could not resolve the problem to the satisfaction of either management or labor. But the issues having been placed on that high level, there was nothing either side could do to restore the normal process of "across the table" deliberations between the parties directly concerned—however dormant it may lie.

Then—and this is where the White House lost face with the union—Mr. Truman laid the heavy whip on the employees by jeopardizing their loss of seniority without, the workmen complain, threatening sanctions on the operators for their part of failure to reach an agreement.

In such an atmosphere, future conciliation is threatened. Compulsory arbitration seems to be the ready answer, with the White House out of the picture. And there is increasing sentiment on Capitol Hill for just that. It will be seriously debated, and soon.

CROSSING UP the Office of Housing Expediter, is a report from the Economic Stabilization Administration on the subject of rent control, and the housing lobby is sparing no effort to give it circulation. While the OHE is demanding a tougher control law, ESA has reported on a survey of housing in Europe and has this explanation for failure of France and Italy to make more progress: "Due to stringent rent controls, returns from rentals have been low and discouraged private investment in this type of housing." Also somewhat dampening moves for commercial rent control in the Senate small business committee finding: between 1940 and 1950 they've kept closely in line with the general cost of living index of the Bureau of Labor Statistics.

DETERMINED effort will be made by Postmaster General Jesse M. Donaldson to wipe out the half-billion dollar annual postal deficit and, taking his cue from President Truman, the Cabinet member will fix his campaign to the defense effort—the need for more funds. The President, however, already has ruled 25 per cent of the deficit is not the fault of mailers who pay their way; it comes from federal free mailing and air mail subsidy. But businessmen using the penny post-card for advertising, the parcel post for shipping, may be hit hard. Those items have been established special targets.

REP. BUCHANAN, nemesis of the lobbyist, (his investigating committee lambasted the practitioners) now is out with the statement that "American business would be more successful in their efforts to influence legislation if they employed professional public relations people." The congressman doesn't clarify the distinction between the lobbyist and the public relationist; somehow, however, he concludes the latter could be more useful all around.

As We Go To Press

The lineup that was able to muster a congressional majority in both houses for the Kerr oil bill (they couldn't command a two-thirds vote to defeat the veto) is being alerted to fight the Administration program of closing the "loophole" in depletion allowances on natural resources, for tax purposes. Mr. Truman envisions 350 million dollars more due the Treasury each year, and he emphatically wants congress to see that it is collected. There are arguments for and against the present liberality, but the one most likely to be relied on is that an emergency period is a poor time to discourage activity in a natural resource development program.

The oil, gas and mineral extraction operators are allowed to deduct, for federal income tax purposes, 27½ per cent of each year's gross income (provided that does not exceed one-half of the net income.) That represents presumed depletion of the supply source, but the President claims it has been found to represent 500 per cent more than actual depletion. Actually, there never was congressional intent to do apothecary- scale weighing to make certain that the depletion allowance would exactly match the value of annual extractions. The figure was purposely made higher as an inducement to investors to work the oil and natural gas fields. Many attempts have been made in past years to cut the percentage figure. There even have been a few proposals to raise it!

Fight by butter interests against oleomargarine isn't dead, it isn't even at rest. The dairymen lost the major engagement last year when congress repealed the heavy federal tax on yellow-colored oleo, refused to require that it be marked, shaped, or colored so as to be completely distinguishable from butter. It was the end of many years of debate on the subject — or so it was thought. But the farm congressmen are back on Capitol Hill and in the State Houses asking new restrictions. However, the butter industry hasn't appeared to have suffered the disaster predicted: there's signs of decrease in consumption, but the Department of Agriculture (friendly to the butter men) points out that it is selling at one cent a pound more today than before the congress acted.

House leaders on both sides of the political aisle are worriedly watching the antics of their appropriations committee, and with good reason. They're hoping the revolt against total domination by Chairman Clarence Cannon of Missouri — which didn't succeed — marks the end of the fighting and that the committeemen will get down to business. With the huge new budget resting on the conference table, the appropriations makers devoted one full month to developing and applying the tactics by which Cannon might be reduced to little more than a presiding officer. Speaker Sam Rayburn and Minority Leader Joseph W. Martin, Jr., are ready to crack down if action does speed up.

Committee quarrels are nothing new. Usually the leadership smiles indulgently, lets human nature take its course. But Rayburn, Martin, et al, have concluded the work of the appropriations committee is too important to tolerate a delaying, drawn-out battle. This one started simply enough: the issue was whether the house would package all money bills in a single measure, as it did last year, or take them up separately as it had for many years before.

Cannon is the chief exponent of the one-package idea and he had some support, but not enough, on his committee. Instead of considering the subject dispassionately, the members began "choosing up sides," eventually tempers flared and Cannon's alleged "bossism" became the real issue. Meanwhile appropriations ideas were not asked, weren't even accepted. One of the more conscientious members asked for a copy of the "justification" for budgetary requests — the detail on why each item was regarded necessary. It wasn't available, he was told; even the staff had joined in the general sitdown strike.

Members eventually received official notification that a committee meeting

was to take place on a stated day. Then they were telephoned the information that the meeting was called off. Soon, another notification, followed by another notice of postponement. The third call brought the committeemen together. But there was no public business — only the private business of Cannon vs. anti-Cannon. The one package bill was rejected over the vigorous opposition of the chairman. Flushed with victory, the chairman's opposition moved to another area: clipping his absolute right to name subcommittees.

Again while the business of framing a budget waited, the committee retired to plan the next strategy. When the congressmen assembled again in the appropriations meeting room, Rep. W. F. Norrell of Arkansas, a normally regular opponent of Cannon, moved that the powers formerly exercised by the chairman be restored to him. That move failed by reason of inaction. But there was action on a major matter of committee policy when it was voted that Cannon be deprived of his voting membership on each subcommittee. In his chairmanship capacity he had taken part in the deliberations of each sub-group (one of them alone, Independent Offices, concerns 32 departments). Argument was made, successfully, that the chairman was voting 11 times to each of his colleagues one vote.

In his 70's, Cannon has dominated the appropriations committee for almost two decades, even including the 80th Congress when the republicans were in control of the House. It required drastic measures to loosen his hold. Rep. Albert Thomas of Texas, Rep. John E. Fogarty of Rhode Island (ironically, in this instance, his home town is Harmony), and Rep. John E. Taber of New York took the lead — Thomas regarded as Rayburn's spokesman, Fogarty a close follower of Majority Leader John Mc Cormack, and Taber the "one man economy bloc."

The lineup had both influence and a careful attitude toward spending funds which was an effective answer to Cannon's claim that the fight was against economy, as represented in himself. The Missourian didn't give up and being a master parliamentarian (he wrote the book congress follows) he bided his time until only friendly members were in Washington, called a meeting and recaptured all his prerogatives -- possibly only temporary.

Organized labor seems unwilling to wait for the facts before raising a question as to the federal wage board's attitude on the subject of pay raises. Union publications are warning their membership that the prospects for them aren't good. Typical of these messages (I.A.M.) is: "The (wage) Board has three labor members, three management members and three public members. Supposedly, these three groups meet together and argue out a policy.

"So far, there appears to be more liaison and friendship between the public members and the management members than between the public members and the labor members. There is every indication, however, that Chairman Cyrus Ching is doing what he can to build the Board into an agency from which both management and labor can expect fair treatment. Labor hopes that he will succeed."

Significant is the fact that the first 10 weeks of the congressional session saw only 17 bills affecting labor introduced. The hold back can be accounted for by the fact that the Taft-Hartley Act is to come up for amendments, opening the statute to what is certain to be a flood of proposed changes. The T-H law is not consistent with the National Production Act with respect to handling labor-management matters in a period of emergency. Ching pointed that out; Taft agreed with it. If the provisions of either control law are invoked, the other law will be violated.

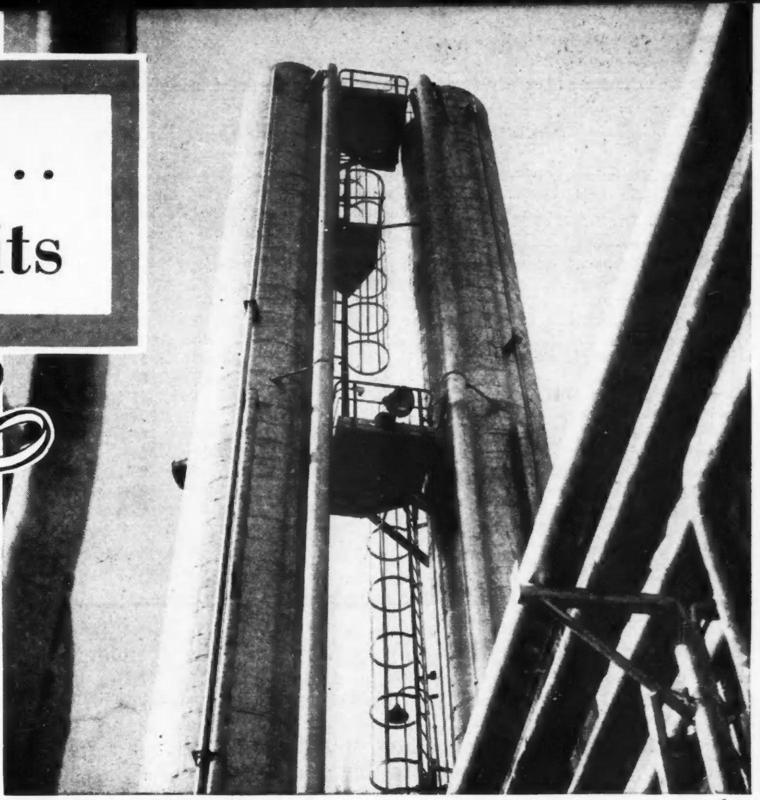
While pending separate bills are numerically few, all the old standbys are in: repeal of the Taft-Hartley Act; requirement that employers sign non-communist affidavits; compulsory arbitration; FEPC; government supervision of all collective bargaining elections, and mandatory secret ballot elections each two years; higher pensions and lower retirement age for railroad workers. The weight of public criticism goes against House action to give its rules committee veto powers to keep bills from reaching the floor but praise probably will follow assured action to pigeonhole many of the above measures where the ground has been gone over so thoroughly in past years.

A Study of..... Stock Splits

By

PHILLIP

DOBBS



Business and market conditions in 1950, especially in the last half of the year, created a favorable climate for stock split-ups, and a good many concerns took advantage of this circumstance. Not only the directorates responsible for proposing such action, but stockholders as well had reason to view with satisfaction the results of such decisions. Since the start of 1951, accordingly, the trend to subdivide common share capitalizations has continued, and thus invites discussion of the various motivations therefore.

According to "Exchange," the official publication of the New York Stock Exchange, 33 companies listed on the Big Board last year divided their shares in a ratio of 2 for 1 or higher. By these moves, more than 70 million shares were added to the list, with their trading potentials enhanced by quotations in a much lower range than formerly. The psychological advantage of lower price not only attracts new investors, but establishes a broader market for stocks, in itself beneficial to shareholders. More than 200 concerns have subdivided their shares in the past five years, and this has become increasingly reflected by large daily volume on the Stock Exchange and by narrowed spreads between bid and asked prices, a very desirable situation.

While occasionally there is evidence that stock splits have been motivated by a desire to distribute holdings of insiders, following market activity induced by the mere proposal of a split, in the great majority of cases the subdivisions have been based on sound and logical reasons. In many instances of late, large scale retention of earnings in postwar for expansion and modernization has broadened corporate statures to an extent quite disproportionate to the number of shares outstanding. In other words, investors in these companies had involuntarily provided the additional capital required, at least for the time being, but by the medium of a stock-split have finally been given a tangible reward in the form of shares that they can either convert into cash or hold for increased income or future appreciation.

Because of the marked rise in corporate earnings during the last half of 1950, the great majority of concerns that split their shares in this period liberalized their dividend policies at the same time or not long after. This trend has dispelled a good deal of the notion that sotckholders accepting for free more shares than they owned before merely received more but smaller pieces of the pie, for under current conditions their reward has taken more concrete form. This applies with equal force to the beneficiaries of stock dividends of less than 100%, declared by about 70 companies last year. In the persistently strong market of recent months, some excellent opportunities arose to cash in stock dividends without seriously diminishing the value of holdings prior to declaration of such dividends.

Stock market statistics have clearly proved that investors by a large margin favor moderate to low priced stocks. Even now, with the Dow Jones Industrial Average at a 20-year high, the average price of the 25 most active stocks on the New York Stock Exchange during 1950 was slightly below 24, and the group included a number of high quality issues. It seems obvious that more investors feel they can afford to purchase the lower priced stocks provided they have inherent merit, and that many speculators prefer them for their relatively higher percentage appreciation potentials.

For Broader Public Participation

In the circumstances, directorates desirous of broadening public participation in their companies tend to propose split-ups that will bring their shares down to a level ranging from 20 to 40, although there are naturally exceptions to the rule. When General Motors, for example, divided its approximate 44 million shares on a 2 for 1 basis last October, the post-split quotation was slightly above 50. As a result of the lower price, seemingly, the roster

Statistical Data on Shares Proposed for Split

	Net Per Share 9 months 1950	Net Per Share Full Year 1949	Div. 1950	Recent Price	Price Range 1950-51 High Low	Basis of Proposed Split
Atchison, Topeka & Santa Fe Ry.	$31.29[4]	$18.06	$8.50	177½	177¾-100⅛	2-1
Granite City Steel	8.92	7.44	4.25	60	62¾- 24¾	2-1
Gulf Oil Corp.	7.33	8.89	4.00	90¾	91½- 59¼	2-1[2]
International Salt	3.19[3]	6.93	4.50	81¾	81¾- 52	2-1
Lane Wells	5.00	6.32	2.80	41¾	41¾- 22½	2-1
Lehigh Portland Cement	5.35	6.67	2.50	51⅞	53¼- 38½	2-1
Link Belt	6.18	9.73	6.00	81	87½- 57¼	2-1
May Department Stores	2.21[3]	5.79	3.00	69½	72 - 45¾	2-1[2]
New York, Chicago & St. Louis R. R.	55.88[4]	30.55	—	234	235 - 90	5-1
Phillips Petroleum	5.93	7.36	3.50	81	83⅜- 59½	2-1
Plymouth Oil	5.10	5.12	2.00[1]	61	63½- 38½	2-1[2]
Standard Oil of California	7.47	10.10	5.00[1]	98¼	98⅞- 61	2-1
Standard Oil of New Jersey	9.06	8.91	5.00	103¾	104 - 66	2-1
Texas Company	6.90	9.63	6.50	92⅜	93 - 59¼	2-1

1—Plus stock.
2—100% stock dividend.
3—6 months.
4—12 months.

of GM stockholders increased by 10,439 by the year-end, establishing a record high of 410,428.

Because of broadly distributed prosperity throughout the economy last year, companies in a widely varying range of industries have split their shares, although manufacturers of durable goods predominated, and the latter may continue to hold the lead in 1951. More recently, however, the list of split-ups has included a good many oil companies, with an interesting sprinkling of utilities and even two railroads represented. Chemical concerns in 1950 rather frequently subdivided their shares, and others in this field may be likely candidates for similar action this year.

Under current favorable stock market conditions, it is hardly a surprise that the majority of shares recently split are selling above their adjusted pre-split prices. As the appended tabulation shows, however, the gains have varied considerably, and in a few instances the price has even receded. Accounting for these varying experiences in price action, appraisals of company potentials in a defense economy have been influential, while speculative factors have also exerted some force. Suppose we discuss a few situations where split-ups have recently been effected or proposed.

The Quaker Oats Company in recently splitting its shares on a 4 to 1 basis had a valid reason for the action. A remarkably stable earnings record for nearly half a century had won a high investment rating for the company's shares and large amounts of the stock have been held by the families of its leading executives. With an unbroken dividend record since 1906, the high regard for these equities, combined with a limited market supply, created a relatively high price for an extended period. In all but three years of the past 25, the annual high for this issue was well above 100.

Prior to the recent stock split, the shares were selling at 137 on the New York Curb Exchange and on the Midwest Stock Exchange in Chicago, well out of reach of the average investor. Total dividends of $6.75 a share were paid in the calendar year 1950, affording a yield of slightly under 5%. Considering the size and record of this long established manufacturer of cereal food products, a stockholder's list of about 6,100 seemed rather limited. Shortly after the stock-split, Quaker Oats common was listed on the New York Stock Exchange and the demand for the shares expanded considerably. At a recent price of 45⅞, the stock is 33.8% above its pre-split level, attesting to a much broadened following.

Grumman Aircraft

Grumman Aircraft Engineering Corporation, long a leading builder of airplanes for the Navy, declared a 100% stock dividend payable November 30, 1950. This was no novelty for the company, as on three previous occasions since 1933 similar action had been taken, including payment of a 300% stock dividend in 1937. In this company we have an outstanding example of rapid and consistent growth in assets and earnings that outstripped capitalization and warranted increasing number of common shares. (*Please turn to page* 575)

Price Trend of Shares Split Recently

	Effective Date of Split	Basis of Split	Pre-Split Price Adjusted	Price Range 1950-51 High Low (Adjusted)	Recent Price	Percent Change from Pre-Split Price to Recent Price
American Viscose	11-16/50	2-1	54¾	64½-54½	62½	+14.1%
Babcock & Wilcox	12- 4/50[2]	2-1	35¾	43½-33¾	41¼	+15.3
Container Corp. of America	11-30/50	2-1	29⅝	36½-28	36½	+23.2
Gillette Safety Razor	12- 7/50	2-1	24¾	30 -21¼	29½	+19.1
Goodrich, (B. F.) Co.	1-22/51	3-1	45⅜	48 -42½	46¾	+ 2.2
Grumman Aircraft Engineering	12- 1/50	2-1[1]	20½	29¾-20	25⅜	+23.7
International Minerals & Chem.	12-29/50	2-1	27⅝	28¾-25½	27¼	— 1.4
Jones & Laughlin Steel	1-23/51	2-1	27½	31⅝-27⅛	30½	+11.0
Kroger Co.	1-13/51	2-1	37¼	38¾-34¼	38	+ 2.0
Masonite Corp.	12-29/50	2-1	31½	33½-30⅛	32⅝	+ 3.1
Minnesota Mining & Mfg.	1-29/51	4-1	41¼	44 -38	41⅝	+ .9
Monarch Machine Tool	1- 2/51	2-1	20⅛	24⅜-19¾	21¾	+ 8.0
Murray Ohio Mfg.	11-10/50[2]	2-1	21¾	22 -18¼	19½	—10.3
National Tea	12-20/50	2-1	23½	25¼-22⅝	25¼	+ 7.4
Oklahoma Gas & Elec. Co.	12-14/50	2-1	20	20⅞-18¾	20⅜	+ 1.8
Penna. Glass Sand	12- 5/50	2-1	19⅞	24½-18¾	23½	+20.5
Philco Corp.	12-18/50	2-1	21½	25¼-20	25	+16.2
Quaker Oats	1-29/51[2]	4-1	34¼	47¼-32¼	45⅞	+33.8
Reliance Elec. & Engineering	2- 5/51[2]	2-1	23⅜	24⅛-23⅛	24	+ 2.6
Thompson Products	11-20/50	2-1	35¼	42½-32	40½	+14.8
Vulcan Detinning	9- 1/50	2-1	21	22¼-17¼	19¼	— 8.3
White Sewing Machine	11-16/50	2-1	24⅝	25½-18¼	22	—10.6

1—100% Stock Dividend.
2—Approximate date.

★ ★ FIVE ★ ★ PROMISING LOW PRICED STOCKS

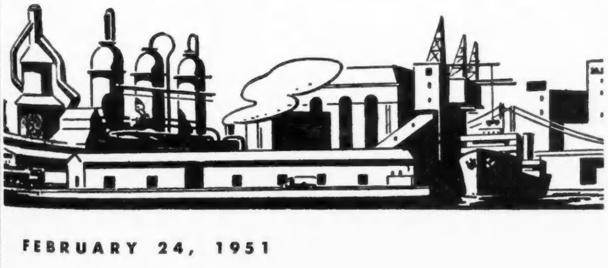
SELECTED BY OUR STAFF

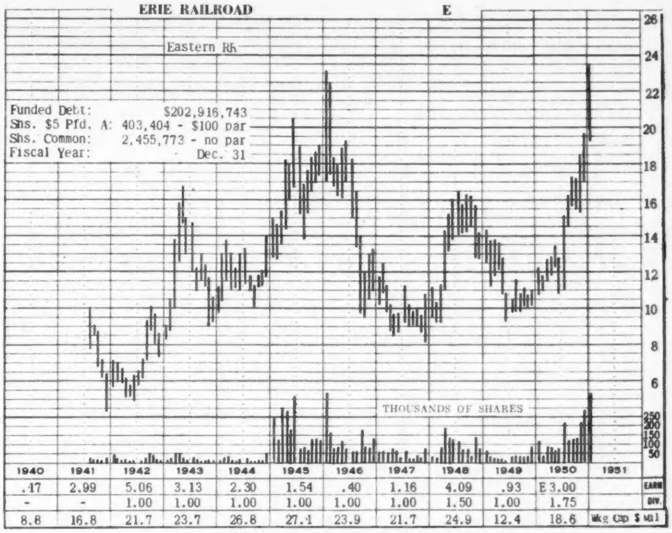
Low priced stocks, as frequently pointed out in our columns, often hold particular attraction for investors interested primarily in capital gains. The ability to purchase them with limited funds and yet achieve adequate diversification of risk, plus the readiness with which substantial percentage appreciation often accrues in active markets, are admitted advantages. Our readers thus frequently seek our advice as to appropriate selections in the lower price field.

Interest in low priced shares has been enhanced by current market and economic conditions, the former reflecting heightened speculative interest in that type of equity, the latter making for improved prospects for many companies whose shares normally sell in a lower price range. Thus while our long maintained principle that investments will prove most satisfactory over a longer term when primarily limited to better grade equities, remains unchanged, this does not necessarily apply rigidly where the element of reasonable appreciation over the medium term is the predominant factor.

Among the selections herewith offered are the shares of companies that should do well in the year ahead, which are not without intrinsic merit, which pay dividends well secured by current and prospective earnings, and afford attractive income yield. All enjoy relatively sheltered tax positions in respect to EPT. The stocks we have chosen include two speculative rails currently in the process of impressive earnings recovery and with the distinct promise of further improvement; a small but up-and-coming oil concern; a leading manufacturer of building materials; and the equity of a well situated department store concern. These companies are well managed, adequately financed and in a position to reap the benefit of postwar improvements of their facilities.

On this and the following pages, we present statistical data, charts and brief comments on the outlook for these companies.





ERIE RAILROAD COMPANY

BUSINESS: This is one of the four leading trunk line systems connecting New York and Chicago, thus serving one of the most populous and highly industrialized sections of the United States.

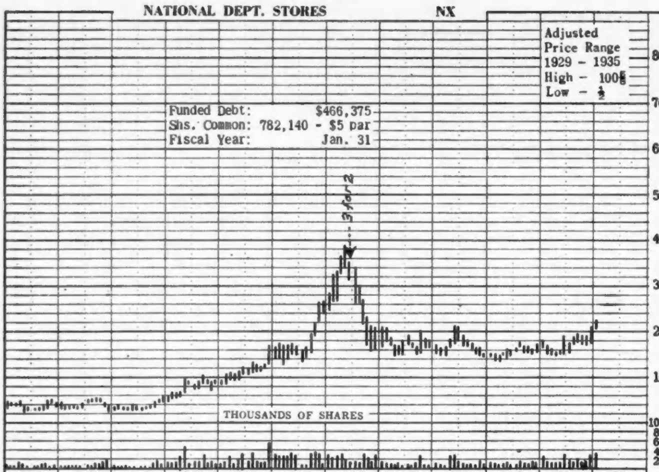
OUTLOOK: The stock of this carrier, reorganized in 1941, provides an interesting low-priced speculation. Government spending for armaments, combined with continued high level civilian production, assures Erie of increasing gross revenues in 1951. The company is especially well situated to capture a large amount of traffic in steel, coal and machinery essential to the defense program. In the circumstances, the outlook for improved earnings over an extended period is encouraging. This is especially true since in late years Erie has spent more than $100 million for modern rolling stock and track improvements, as a result of which the ratio of operating costs to gross income has been steadily reduced to a point below 75%, an exceptionally low ratio compared with that of many other roads. How this operating efficiency benefits earnings is illustrated by the road's experience in 1950, when a rise of about 12% in volume was attended by an advance in net earnings to $4.67 per share compared with $1.60 in the preceding year. As to excess profit taxes, Erie in common with most railroads has a well sheltered position because of large capital investments. With a prospect for stabilization of wages and increased traffic, following the recent strike, Erie should progress through 1951 with smooth operations and improved revenues. The company's finances are in excellent shape to meet all indicated requirements.

DIVIDENDS: For eight years following reorganization in 1941, Erie paid $1 per share annually, except in 1948 when $1.50 was distributed. In 1950, common stockholders received 50 cents a share in June and $1.25 in December, or a total of $1.75.

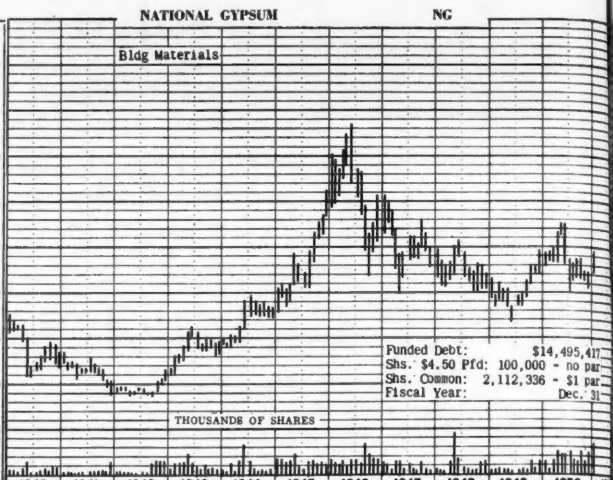
MARKET ACTION: Recent price—24¼ compares with a 1950-51 range of high—24⅝, low—10⅝. The current yield is 7.3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 18,318	$ 20,976	+$ 2,658
Receivables, Net	6,023	9,479	+ 3,456
Materials and Supplies	3,807	8,600	+ 4,793
Other Current Assets	1,009	66	— 943
TOTAL CURRENT ASSETS	29,157	39,121	+ 9,964
PROPERTY	434,771	471,535	+ 36,764
Reserve for Deprec & Amort.	......	(CR) 124,117	+ 124,117
Investments	96,409	31,773	— 64,636
Other Assets	4,201	7,195	+ 2,994
TOTAL ASSETS	$564,538	$425,507	—$139,031
LIABILITIES			
Loans Payable	$ 3,873	$	—$ 3,873
Accounts Payable	7,456	13,941	+ 6,485
Accruals	8,940	12,717	+ 3,777
TOTAL CURRENT LIABILITIES	20,269	26,658	+ 6,389
Accrued Depreciation	61,510	......	— 61,510
Other Unadjusted Credits	2,999	4,262	+ 1,263
Other Liabilities	40,621	4,854	— 35,767
Long Term Debt	272,368	202,917	— 69,451
Preferred Stock	63,761	40,244	— 23,517
Common Stock	151,106	97,683	— 53,423
Surplus	(DR) 48,096	48,889	+ 96,985
TOTAL LIABILITIES	$564,538	$425,507	—$139,031
WORKING CAPITAL	$ 8,888	$ 12,463	+$ 3,575
CURRENT RATIO	1.4	1.4	......



1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	
1.13	1.80	2.20	2.35	2.38	2.91	5.45	4.12	3.32	1.87	E2.50		EARN.
-	-	-	.50	.50	.66⅔	1.16⅔	1.50	1.50	1.50	1.50		DIV.
10.4	11.6	12.7	14.0	14.7	17.4	20.4	21.5	23.2	21.6		Wkg Cap $ Mil	



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.03	.94	.56	.50	.42	.51	2.21	2.89	3.60	2.67	E 4.70
DIV.	.40	.40	.25	.25	.25	.25	.50	.75	1.00	1.25	1.50
Wkg Cap $ Mil	5.0	5.7	6.3	7.6	7.9	12.4	17.6	10.8	16.7	20.8	

NATIONAL DEPARTMENT STORES CORPORATION

BUSINESS: Company owns all or most of the stock of 14 department or specialty stores in a number of populous cities throughout the United States.

OUTLOOK: Retail merchandisers, and particularly the department stores, seem well assured of volume in the current year. While the gradually curtailed supply of home appliances and hardware will soon reduce sales of these items, the lag should be fully offset by increased volume of soft goods, their normally predominant offerings. The assured uptrend in national income this year will create large purchasing power and a demand that logically will seek satisfaction through the purchase of apparel and other non-durable consumer goods as the shortage of hard goods increases. More than one trade expert predicts that department store volume in the current year will establish new records, and a sharp uptrend in sales thus far supports this surmise. The modern merchandising outlets of National Department Stores are well situated to make the most of the opportunities ahead. In such prosperous centers as Detroit, Pittsburgh ,Philadelphia, Houston and other cities, inventories have been enlarged with virtually no risk of overstocking or of losses from price declines. Rapid turnover is characteristic of this concern, as the bulk of merchandise handled is of the popular-priced sort. Heavy reliance on cash sales tends to ease the impact of credit curbs. As the company's EPT position is quite favorable, 1951-52 earnings should at least equal an estimated $2.50 per share for the fiscal year ended January 31, 1951.

DIVIDENDS: Payments have been uninterrupted since 1943. For the past two years, quarterly payments of 25 cents a share have been supplemented by a 50 cents year-end extra, making an annual total of $1.50 per share.

MARKET ACTION: Recent price—23 compares with a 1950-51 range of high—23¾, low—14¾. The current yield is 6.5%.

COMPARATIVE BALANCE SHEET ITEMS

	January 31 1940	1950 (000 omitted)	Change
ASSETS			
Cash	$ 1,560	$ 6,746	+$ 4,916
Marketable Securities	100	1,656	+ 1,556
Receivables, Net	6,045	10,737	+ 4,692
Inventories	5,034	8,736	+ 3,702
TOTAL CURRENT ASSETS	12,739	27,605	+ 14,866
Plant and Equipment	3,499	4,716	+ 1,217
Less Depreciation	851	1,644	+ 793
Net Property	2,648	3,072	+ 424
Other Assets	539	1,245	+ 706
TOTAL ASSETS	$ 15,926	$ 31,922	+$ 15,996
LIABILITIES			
Accounts Payable	$ 2,170	$ 4,355	+$ 2,185
Accruals	628	1,596	+ 968
Accrued Taxes	170	33	— 137
TOTAL CURRENT LIABILITIES	2,968	5,984	+ 3,016
Reserves	140	324	+ 184
Long Term Debt	1,929	628	— 1,301
Preferred Stock	1,827	.....	— 1,827
Common Stock	4,941	5,139	+ 198
Surplus	4,121	19,847	+ 15,726
TOTAL LIABILITIES	$ 15,926	$ 31,922	+$ 15,996
WORKING CAPITAL	$ 9,771	$ 21,621	+$ 11,850
CUURRENT RATIO	4.4	4.6	+ .2

NATIONAL GYPSUM COMPANY

BUSINESS: Company is next to the largest producer of building materials having gypsum as a base, with 150 related items essential to construction activities adding to output. Operations are well integrated.

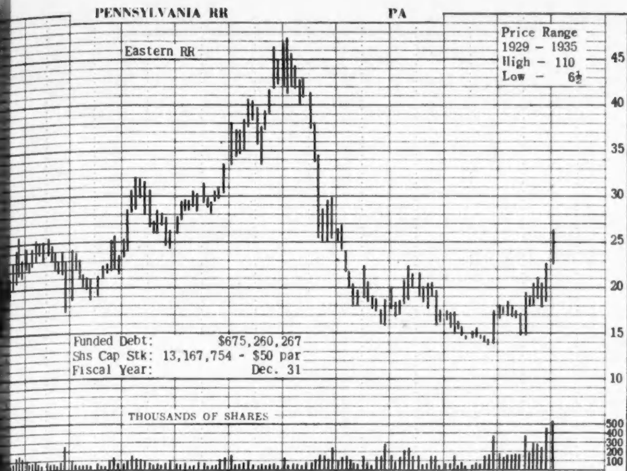
OUTLOOK: While the curtailment of residential construction has cut heavily into backlog orders, evidence is accumulating that business of this strongly established concern during the current year may be considerably more satisfactory than initially thought probable. Demand for materials used in industrial and defense-type construction such as panel boards, plaster, gypsum blocks, insulation materials and many others, should expand at a rate likely to offset declining orders for home building, particularly since the latter will still remain fairly substantial. It should also be realized that National Gypsum's bulk sales of chemicals, paints, metal laths and agricultural limes should continue to support large volume. That the management views the outlook with optimism is shown by announced plans to spend several million dollars for new plant construction, designed to increase production and to coordinate operations. Total outlays of more than $30 million for the same purpose in postwar have measurably enhanced the company's operating potentials. To finance these improvements, the company placed $15.4 million term notes at about 3%, and an additional $6 million at a low rate. Net earnings for nine months ended September 30, 1950, were $3.34 per share, after allowing for retroactive income taxes. Since substantial earnings in the 1946-49 period offer good protection against excess profits taxes, net for full 1950 may come to around $4.50 a share.

DIVIDENDS: During the prewar decade all earnings were retained in the business, but there have been uninterrupted payments since 1939. In the final quarter of 1950, payment of 35 cents per share compared with 30 cents in the preceding three quarters, and a year-end extra of 25 cents made a total of $1.50. This annual rate seems secure.

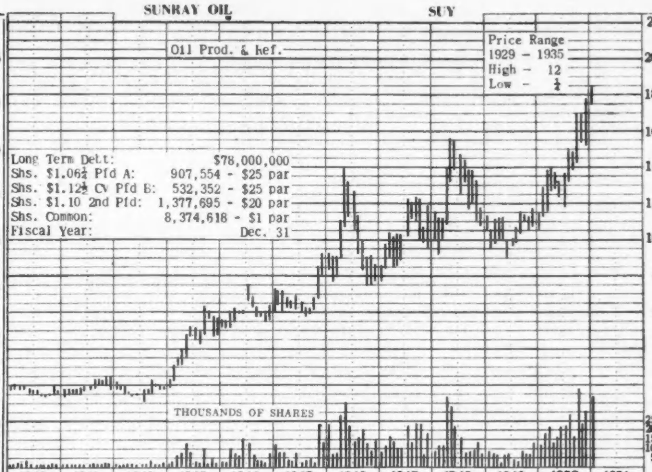
MARKET ACTION: Recent price—19 compares with a 1950-51 high of 22⅝ and a low of 15. The current yield is 7.9%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 1,464	$ 6,164	+$ 4,700
Marketable Securities		4,987	+ 4,987
Receivables, Net	2,480	6,133	+ 3,653
Inventories	2,748	7,034	+ 4,286
TOTAL CURRENT ASSETS	6,692	24,318	+ 17,626
Plant and Equipment	15,501	53,603	+ 38,102
Less Depreciation	2,276	12,570	+ 10,294
Net Property	13,225	41,033	+ 27,808
Other Assets	978	1,117	+ 139
TOTAL ASSETS	$ 20,895	$ 66,468	+$ 45,573
LIABILITIES			
Accounts Payable	$ 644	$ 2,357	+$ 1,713
Accruals	484	944	+ 460
Accrued Taxes	510	165	— 345
TOTAL CURRENT LIABILITIES	1,638	3,466	+ 1,828
Reserves	150	407	+ 257
Funded Debt	5,774	14,495	+ 8,721
Preferred Stock	6,155	8,885	+ 2,730
Common Stock	1,261	2,112	+ 851
Surplus	5,917	37,103	+ 31,186
TOTAL LIABILITIES	$ 20,895	$ 66,468	+$ 45,573
WORKING CAPITAL	$ 5,054	$ 20,852	+$ 15,798
CUURRENT RATIO	4.1	7.1	+ 3.0



	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	3.98	7.71	6.49	4.92	3.72	d.65	.55	2.61	.95	E 3.50	
DIV.	2.00	2.50	2.50	2.50	2.50	1.60	.50	1.00	.75	1.00	
Wkg Cap $ Mil	70.6	101.8	93.5	113.0	156.2	108.4	86.8	165.7	147.1	154.6	



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	a .23	a .39	a .67	a .52	a .50	a .54	a .78	1.81	2.78	1.77		
DIV.	.10	* .10	* .10	.20	.20	.20	.30	* .50	.65	1.00	1.00	
Wkg Cap $ Mil	.0	.8	1.6	2.1	2.9	3.2	8.9	8.0	24.8	19.3	32.6	

a Before Consolidation with Transwestern Oil Co. * Plus Stock

PENNSYLVANIA RAILROAD

BUSINESS: This century old railroad operates about 10,600 miles of main track in a highly developed area that includes about 15% of the nation's population. The entire system, including associated lines, has a trackage of about 28,200 miles.

OUTLOOK: Although operations in 1950 showed marked improvement over the preceding year, still further and more significant gains are indicated for 1951. Because of increased traffic stimulated by the defense program, aided by higher mail pay, gross revenues in the current year are expected to rise by at least 10%. Aside from this prospective advantage, though, huge outlays for road improvements and for modern cost-saving equipment consistently reduced the operating ratio last year, and in 1951 there is a chance that it may decline to as low as 80% compared with 86% in 1949 and about 83% in 1950. Through substitution of Diesel locomotives for steam, the company has already reduced operating costs by nearly $20 million annually, and when more of these are delivered this year, the amount saved could double. Deliveries of a large fleet of new freight cars, also, are affecting savings of more than $1 million monthly in repair bills. On gross revenues of $930 million in 1950, Pennsylvania R.R. earned $38.4 million or $2.92 per share, after a charge of $10 million to allow for repairs to equipment in 1951. Receipt of $19.5 million in back mail pay, however, conversely distorted earnings, as did also certain tax adjustments. The position of this road as to excess profits taxes is excellent, with an exemption base estimated around $5 per share. On the whole, the outlook for improved earnings in 1951 is quite bright.

DIVIDENDS: Since 1848 stockholders have received dividends without a break, although payments have varied. Strong finances have permitted distributions in lean years. Semiannual payments of 50 cents a share in 1950 brought a total of $1, and an improvement in 1951 would not surprise.

MARKET ACTION: Recent price—25 compares with a 1950-51 range of high—26¼, low—14½ .The current yield is 4%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1950 (000 omitted)	Change
ASSETS			
Cash	$ 87,443	$ 92,378	+$ 4,935
Temporary Cash Investments	......	67,647	+ 67,647
Receivables, Net	29,666	85,275	+ 55,609
Materials & Supplies	34,985	65,742	+ 30,757
TOTAL CURRENT ASSETS	152,094	311,042	+ 158,948
Property	1,398,969	1,787,107	+ 388,138
Reserve for Deprec. & Amort.	......	(CR) 648,767	+ 648,767
Investments	711,686	696,140	— 15,546
Other Asstes	133,392	199,943	+ 66,551
TOTAL ASSETS	$2,396,141	$2,345,465	—$ 50,676
LIABILITIES			
Accounts Payable	$ 42,487	$ 93,567	+$ 51,080
Accruals	15,648	20,250	+ 4,602
Accrued Taxes	24,367	42,540	+ 18,173
TOTAL CURRENT LIABILITIES	82,502	156,357	+ 73,855
Accrued Depreciation	358,936		— 358,936
Other Unadjusted Credits	138,272	174,407	+ 36,135
Other Liabilities	11,969	13,993	+ 2,024
Long Term Debt	694,202	706,233	+ 12,031
Capital Stock	658,387	658,387	......
Surplus	451,873	636,088	+ 184,215
TOTAL LIABILITIES	$2,396,141	$2,345,465	—$ 50,676
WORKING CAPITAL	$ 69,592	$154,685	+$ 85,093
CURRENT RATIO	1.8	2.0	+ .2

SUNRAY OIL CORPORATION

BUSINESS: Company through several acquisitions in recent years has become a good-sized refiner of petroleum products and its operations are well integrated by the development of substantial oil and gas reserves.

OUTLOOK: Mergers of Superior Oil Corporation, Darby Petroleum Corporation, Transwestern Oil Company and, more recently, Barnsdall Oil Company, with Sunray have greatly expanded the company's stature, provided full utilization of large crude oil production, and enhanced earnings potentials on the increased number of common shares. Because of the rearmament program, demand for all kinds of petroleum products should continue at a very high level throughout 1951, and capacity operations are well assured. Following the acquisition of Barnsdall Oil last June, Sunray's daily production of crude oil and condensates rose to more than 75,000 barrels, the bulk of which is needed for its own refineries. During the first nine months of 1950, including only three months of combined operations, 12.4 million barrels were produced compared with 7.9 million in the same period of 1949. In the nine months-span, Sunray earned $14.1 million or $1.75 a share on 7,192,000 common shares outstanding, compared with $7.2 million or $1.16 on about 5 million shares in the comparable 1949 period. Because of large invested capital or sizable allowances for depletion, the influence of excess profits taxes is minimized. The company porbably earned about $2.60 per share for all of last year. Although prepayments of debt or conversions of preferred stocks eliminated at least $50 million of senior securities last year, the equities have a leverage factor that enhances their speculative appeal in a promising year like 1951.

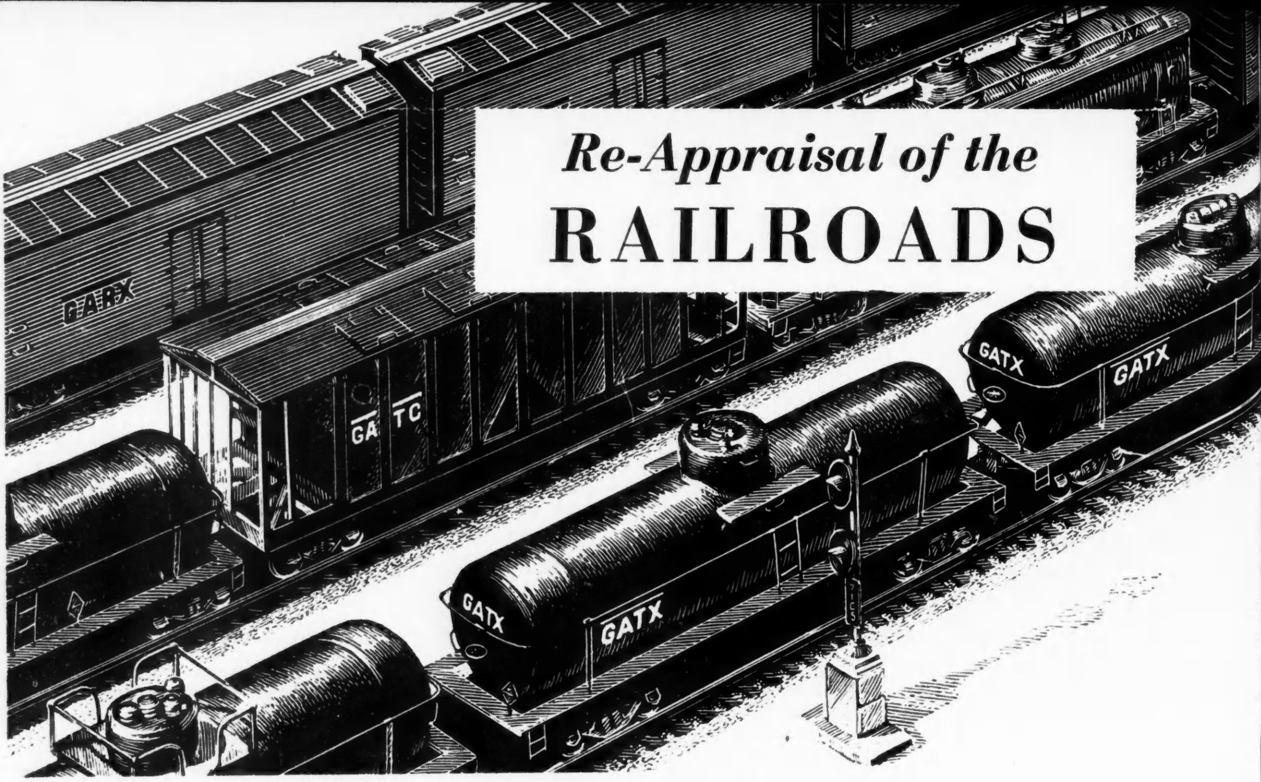
DIVIDENDS: Payments have been uninterrupted since 1936. Conservative quarterly dividends of 25 cents a share were paid in 1950, for a total of $1, and on March 1, 1950, 30 cents will be distributed.

MARKET ACTION: Recent price—20 compares with a 1950-51 range of high—20¼, low—10½. A yield of about 6% as indicated.

PRO FORMA CONSOLIDATED BALANCE SHEET*

	December 31, 1949 (000 omitted)
ASSETS	
Cash	$ 27,827
Marketable Securities	1,705
Receivables, Net	8,309
Inventories	8,947
TOTAL CURRENT ASSETS	46,788
Plant and Equipment	328,918
Less Depreciation	116,376
Net Property	212,542
Other Assets	4,738
TOTAL ASSETS	$264,068
LIABILITIES	
Current Debt Matured	$ 4,800
Accounts Payable & Tax Accr.	14,190
Accruals	1,731
TOTAL CURRENT LIABILITIES	20,721
Other Liabilities	2,641
Long Term Debt	95,200
Preferred Stock	86,215
Common Stock	5,825
Surplus	53,466
TOTAL LIABILITIES	$264,068
WORKING CAPITAL	$ 26,067
CURRENT RATIO	2.2

*Latest available.



Re-Appraisal of the RAILROADS

By ROGER CARLESON

Railroad stocks are enjoying one of their rare periods of great popularity. The explanation lies, of course, in the prospect of exceptional prosperity likely to be experienced by the transportation industry in meeting responsibilities imposed by a wartime economy. For a change, virtually all fundamental factors are exerting a favorable influence. It might be said that propitious phenomena are in conjunction. The sustained rise recorded since the brief Korean decline last summer has discounted in no small measure hopes of outstanding earnings and dividend gains.

In the following reappraisal of the current outlook for railroads, major economic factors will be discussed briefly and the remainder of the article will be devoted to a detailed examination of several leading carriers. In this manner the investor will be provided with latest available information on which to compare principal stocks and judge the extent to which progress has been anticipated in the market. In addition, a comprehensive tabulation has been prepared summarizing relevant statistical data for most of the Class I roads and incorporating brief comments on dividend and traffic conditions as well as observations on management policies.

By its very nature the railroad industry is susceptible to wide variations in earnings depending on general business activity. Fixed operating costs consisting of investment in plant and equipment, real estate taxes, wages for essential personnel and maintenance expenditures are relatively high. By the same token, operating costs increase comparatively slowly in reflecting rising traffic volume.

Accordingly, most of revenue gains after fixed costs are met can be carried over into gross income. This high degree of leverage, characteristic of so-called heavy industry, explains quick changes in earnings experience. Capable managements are those which are able to take advantage to the fullest extent of these conditions.

In appraising the outlook for carrier stocks it is essential that the investor appreciate the risks involved in high leverage. An examination of representative roads' results for 1950 shows increases in share earnings of from 40 or 50 per cent to as much as 200 per cent or more. Gains in net income, as a rule, far exceeded improvement in gross revenues on a percentage basis.

It would be logical to assume, therefore, that relatively small declines in traffic volume could have seriously adverse effects on net income. Thus it is important to watch transportation operating ratios published by all railroads. This is the ratio of operating costs to gross revenues. The lower the ratio, the more net income is likely to improve.

Good Start in 1951

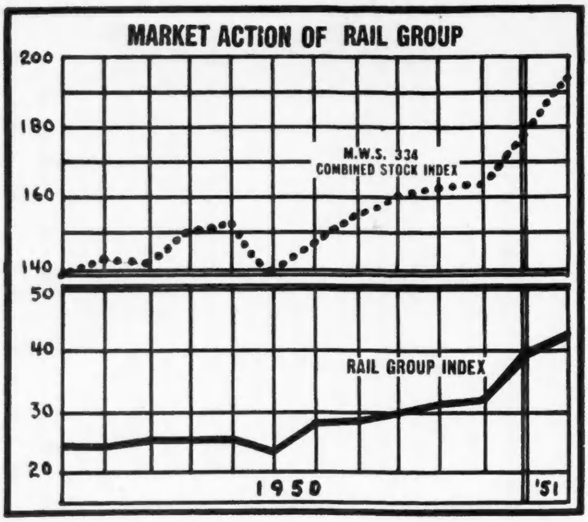
Railroads have experienced a favorable start for 1951. Traffic comparisons with early weeks of 1950 have been especially promising. Benefits of greater efficiency through use of Diesel power are showing up more effectively. These gains account for lower transportation ratios. Generally speaking, most carriers also appear exceptionally favorably sheltered from excess profits taxes. Only very few appear to be vulnerable to this impost.

Costs of materials, including new equipment and repairs, are rising, it is true, but establishment of wage and price controls may prove helpful in retarding inflationary forces in operating expenses. Meantime, carriers have appealed to the Interstate Commerce Commission for an increase in rates to compensate for higher wages granted to employees. Selective rate increases may be approved after appropriate hearings. Higher freight charges are more

Statistical Position of Leading Railroads

	Operating Revenues 1950	Operating Revenues 1949	Operating Ratio 1950	Operating Ratio 1949	Fixed Charges Times Earned 1950	Net Per Share 1950	Net Per Share 1949	Dividend 1950	Recent Price	Yield	COMMENTS
Atchison, Topeka & Santa Fe W	$522.6	$482.7	.....	75.2%	.....	$ 31.29	$ 18.06	$ 8.50	168¼	5.0%	Increase in dividend rate deemed likely after stock split in August; management regarded as conservative, with finances in strong position.
Atlantic Coast Line W	133.6	122.9	80.1%	84.7	3.69	15.51	9.39	4.00	78¼	5.1	Outlook promising for maintenance of recent increase in payments; management alert to threat of competition from trucks and shipping.
Baltimore & Ohio X	402.5	356.7	80.6	82.2	2.14	4.95	1.76	.....	23	.....	Hope of common dividend encouraged by earnings gains and full payment on preferred; high rate of industrial activity is major stimulant.
Canadian Pacific	378.5	363.2	.....	92.5	.....	2.50[2]	1.93	1.25	28½	4.3	Boom in metals contributing to rise in big mining subsidiary's earnings and rapid oil developments chief factors rouse hope of higher dividend.
Chesapeake & Ohio X	318.6	273.9	69.4	80.1	3.83	4.25	1.36	1.50	37¼	4.0	Earnings recovery and promising outlook for coal industry rouse hope of higher dividend; management policies criticised by conservatives.
Chicago, Milwaukee, St. Paul & Pacific	255.4	238.0	.....	84.9	.....	4.50	(d) .53	2.00	28¾	7.0	Sharp recovery in traffic and operating economies afford hope for dividend increase; management regarded as having been materially improved.
Chicago & North Western	188.9	173.1	84.3	90.6	4.49	2.49	(d) 4.21	1.50	25¼	5.9	Favorable crop prospects would improve chances of dividend on common; management regarded as competent to handle diverse traffic problems.
Chicago, Rock Island & Pacific X	179.6	184.6	72.8	73.3	8.34	10.19	9.83	3.00	58¼	5.1	Higher traffic arising from defense program plus major property improvements should boost net. Flexible maintenance policy should help stabilize earnings.
Delaware & Hudson Co.	98.1[1]	87.5[1]	79.8[1]	86.0[1]	3.24	10.38	2.85	4.00	51⅞	7.7	Coal subsidiary, whose prospects have brightened holds key to 1951 earnings of this small road. Management has indicated liberal dividend policy.
Great Northern Pfd. W	227.5	212.2	71.3	76.3	.....	9.11	6.05	3.50	57½	6.1	Favorable outlook for iron ore shipments points to satisfactory operating results and more liberal dividend; management regarded as most capable.
Gulf, Mobile & Ohio	78.4	73.0	70.3	76.3	6.18	7.20	2.82	1.50	27½	5.4	Evidence of aggressive management seen in early shift to diesels for all motive power; higher dividend and debt reduction joint objectives.
Illinois Central W	275.9	253.7	72.5	77.3	3.91	20.83	11.20	3.00	72¾	4.1	Sharp earnings recovery in recent years reflects management's careful rehabilitation policy and economical operation; dividend rise indicated.
Kansas City Southern	39.3	39.7	.....	55.9	.....	11.00[2]	12.54	5.00	74⅞	6.7	Increased industrial activity as result of armament expansion and agricultural boom point to earnings gains; $4 dividend adequately covered.
Lehigh Valley	71.2	69.1	.....	81.7	.....	2.42	.12	.....	14⅛	.....	Heavy industrial traffic accounts for earnings recovery; conservative management favors further debt cut before considering dividend action.
Louisville & Nashville W	203.0	177.3	74.2	84.3	4.27	10.39	3.51	3.52	59	5.9	Promising outlook for heavy movement of coal and other traffic points to maintenance of recently increased $1 quarterly rate; management capable.
Minneapolis & St. Louis	20.8	18.8	71.9	81.6	19.69	4.61	2.17	1.25	20¾	6.0	Economies achieved in Dieselization program reflected in improved earnings; management committed to liberal dividend for former bond holders.
New York Central	759.6	697.3	.....	85.6	.....	2.84	1.51	1.00	23⅞	4.2	Progress in operating economies aids earnings despite heavy truck competition; dividends to remain conservative; debt problems faced by management.
New York, Chicago & St. Louis	146.9	127.3	64.2	70.8	5.32	55.88	39.94	.....	223	.....	Outstanding improvement in recent years reflected in final elimination of preferred dividend arrears; common slated for dividends after stock split.
Norfolk & Western	167.9	148.9	69.3	76.6	17.07	5.05	3.56	3.50	51¾	6.7	Traffic governed chiefly by volume of soft coal movement; outlook promising; management leans to conservative side; dividend policy generous.
Northern Pacific	167.2	150.1	72.9	83.4	2.88	7.86	3.92	2.00	37½	5.3	Heavy transcontitnental shipments and bright outlook for agriculture hold out hope for possible increase in quarterly dividends; finances strong.
Reading	118.9	109.7	78.6	83.2	2.68	4.65	2.21	2.00	31¼	6.4	Promising outlook for coal, iron and steel traffic regarded as favorable factor; dieselization program still growing; dividend policy conservative.
St. Louis-San Francisco X	121.3	113.1	73.0	80.1	4.79	6.57	2.02	1.50	28⅞	5.2	Benefits of Dieselization and revival of industry in armament program seen in earnings recovery; management favors liberal dividend policy.
Seaboard Air Line W	135.5	122.8	72.9	80.5	7.94	12.30	5.16	3.00	58	5.1	Outstanding improvement in facilities reflected in earnings recovery and liberal dividend; management regarded as highly trained and aggressive.

(Continued on page 558)



readily absorbed by industry in periods of prosperity.

It is somewhat early to attempt worthwhile estimates of probable traffic volume and net income for the year, but projecting results achieved in recent months on the assumption that the armament program may be prolonged indefinitely, it would seem fair to look for gross revenues comparing favorably with those of the war years of 1942-1945. Total traffic might range upward of $10.5 billion, which might yield net income approaching $925 million for a new high record and comparing with about $750 million in 1950.

Such results would encourage the prospect of more generous dividends. Most roads devoted a large portion of wartime earnings to debt reduction with the result that fixed interest charges have been sharply reduced and book values increased. There is less incentive under current conditions to reduce debt further. Accordingly, stockholders would appear warranted in hoping for greater dividend liberality than in the early 1940's'—assuming, of course, that world conditions continue to dictate the necessity of expanding our armament program. Already several managements have indicated that 1951 distributions may exceed those of last year.

The Leverage Factor

So much for general industry comment. One cautionary observation may be made regarding the high degree of leverage in capitalizations of numerous roads. The impact of earnings improvement tends to show up most effectively in common stocks of so-called marginal carriers, the railroads which usually receive overflow traffic in times of high industrial activity. That is why net income expressed on a share basis varies widely for roads having substantial debt and preferred stock ahead of the common.

Atchison, Topeka & Santa Fe: The largest carrier in the country and one of the most efficiently operated, the Santa Fe has experienced outstanding progress since the shares dipped to as low as 13 at the invasion of the Low Countries in 1940. Main line extends from Chicago to the Pacific Coast by way of Kansas City. A high percentage of well diversified traffic is originated on its own lines, and movement of military supplies to the Pacific area has contributed importantly to favorable operations. Normally wheat and citrus fruits are important traffic items.

Net income jumped last year to a new peak at $31.29 a share, compared with a previous top in 1942 of $27.79 and with only $18.06 a share for 1949. This impressive showing presumably influenced management to yield to pressure for a stock split which stockholders and regulatory authorities are expected to approve in time to become effective in the third quarter. Thereafter a more liberal dividend would be logical. Payments last year came to $8.50 a share, against $8 in 1949.

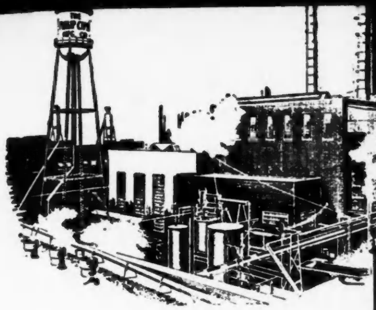
Atlantic Coast Line: Increased activity in the Southeast, notably in (*Please turn to page* 579)

Statistical Position of Leading Railroads—Continued from page 557

	Operating Revenues 1950	Operating Revenues 1949	Operating Ratio 1950	Operating Ratio 1949	Fixed Charges Times Earned 1950	Net Per Share 1950	Net Per Share 1949	Dividend 1950	Recent Price	Yield	COMMENTS
Southern Pacific W	$598.2	$537.5	73.1%	79.0%	3.44	$ 12.29	$ 7.36	$ 5.50	71¾	7.6%	Emphasis on operating economies and benefits of heavy military shipments in recent months reflected in earnings rise; management favors liberal dividend.
Southern Railway W	239.9	212.7	70.3	78.2	2.75	14.94	6.87	3.00	60¾	4.9	Traffic stimulated by military requirements and industrial expansion in South; management alert to need for reducing operating costs; dividend increased.
Texas & Pacific	70.7	62.4	68.9	77.5	3.88	18.23	9.73	5.00	81	6.1	Growth in territory and operating economies contribute to earnings progress; management favors a liberal dividend; financial position well intrenched.
Union Pacific W	465.2	398.8	70.3	79.7	11.52	14.80	10.26	5.00	106½	4.7	Heavy transcontinental freight volume as well as favorable results of oil properties account for good showing; management dividend policy conservative.
Virginia Railway	33.2	29.2	60.3	68.3	4.08	4.02	1.46	3.12½	35¼	8.9	Favorable outlook for coal industry is promising earnings potential; financial position stronger; good excess profits tax exemption indicated; dividend steady.

(d)—Deficit.
1—Includes Hudson Coal Co. and other subsidiaries.
2—Estimated.

W—Recommended for Income.
X—Recommended for Appreciation.



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Outlook for... UTILITY EARNINGS

—Under Pressure of Mounting Taxes

By EDWIN A. BARNES

The utility companies waged a strong fight in Congress, in November and December, for special treatment as regards excess profits taxes. Their plea was that, being a regulated industry, they do not have "excess profits" either from peacetime or wartime operations, and that on the average they earn only about 6% or 6½% on their investment.

Moreover, through the orders of the Securities and Exchange Commission, the Federal Power Commission and the various state commissions, utility plant account and capitalizations have been "written down" (with a few exceptions) to the basis of "original cost when first devoted to public service"—i.e. original construction cost. This means that some $2-3 billion have been written off the industry's balance sheet, and a 6% return on this cost basis would be equivalent to only 4%-5% on the old valuation.

Congress listened to the utilities' plea and gave them a special exemption (as an alternative to the other exemptions granted all companies) of 6% on the capital structure, as set-up on their books rather than in the Treasury Department's records. This was considered a justified victory for the utility companies, which had been "kicked around" at Washington since 1933. Relatively few will be affected by EPT. However, utility stocks didn't "celebrate" marketwise as might have been anticipated—they have continued to lag behind rails and industrials largely because of fears of a cost squeeze under present inflationary conditions. in the present bull market.

Theoretically, utility earnings should be quite stable, but actually they fluctuate for the following reasons: (1) Changes in capital set-up may affect the "leverage" of common stock earnings. (2) If the company has hydro power, the amount of recent rainfall may be an important factor. (3) Storm damage and other non-recurring factors enter the picture. (4) Economies from new generating units, introduction of natural gas, etc., may stimulate earnings. (5) Political conditions in the states vary from time to time as to permissible earnings and the degree of regulation.

Moreover, the companies don't always ask for rate increases even though earnings have fallen below 6%; this was specially true with gas and transit earnings during the postwar period. (Now miscellaneous operating income from these divisions is improving sharply.)

The utilities in the past three years have been engaged in a huge expansion program, and this will continue through 1953 according to present plans. The big new generators being installed—many of them will produce 50,000-100,000 KW—are highly economical both as to fuel and labor. New high-voltage transmission and distribution lines will also bring new economies. Additionally, the rapid growth of business is helpful in most cases—though sometimes a utility may sell big blocks of industrial power at low wholesale rates, and then find it necessary to buy some power from other utilities at a cost which cancels out any profit.

Walking A Tight-Rope

Utility earnings are currently "walking a tight-rope". The companies are trying to balance the benefits of new equipment and bigger business against steadily mounting Federal taxes. For the calendar year 1950, it is estimated that they will be able to show about an 8% gain in common stock earnings as contrasted with a 9% increase in revenues and an 11% increase in KWH sales. This means that they were able to absorb the 1950 increase in taxes (including EPT) and increase their earnings in merely the same proportion as the growth in plant account.

Whether they will be able to make as good a showing in 1951 is somewhat problematical. The Administration has recommended a 55% income tax rate retroactive to January 1st, but at this writing it seems likely that Congress might put this rate into effect only for the second half of the year—which would mean an average rate of 51%. The increase

from 42% to 51% would be bad enough—a jump in Federal income taxes of 22% compared with an increase in 1950 of only 11% (plus the small EPT).

Despite the uncertain outlook as to taxes, a number of companies have already announced common stock financing, which of course dilutes earnings until the new capital is "put to work". They seem confident that new economies, plus rate increases where necessary, will maintain current dividends.

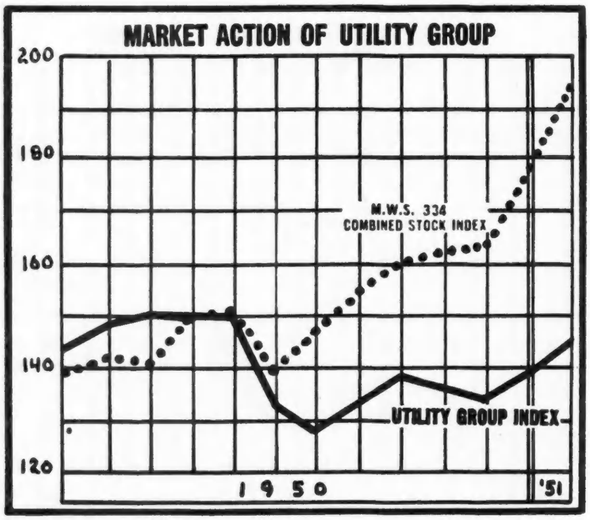
New Rate Increases

Some companies are currently putting rate increases into effect—Pacific Gas & Electric, Duquesne Light, Southwestern Public Service, etc. If Congress raises taxes again in July, there seems little doubt that many utilities will ask for higher rates as an offsetting factor, in order to maintain current dividend rates.

There has been no talk as yet of lower payments to stockholders. During World War II, some companies had to cut dividends, but at that time there was little equity financing needed. Talk of dividend cuts at this time would of course make equity financing difficult, and such financing is still considered necessary to take care of construction and also to prevent deterioration of capital ratios.

Because of existing uncertainties, particularly the impacts of higher costs and taxes on earnings, utility shares have participated but modestly in the current market upswing, yields at current prices have remained quite generous, ranging from 5¼% to 8%, and therefore of interest to many investors despite the indicated limitation of appreciation potentials. In the accompanying table are listed data pertaining to a number of the more important operating companies. The outlook for these is discussed below as well in the column headed "comment" in the tabulation.

Boston Edison is a solid New England company with an unusually high common stock equity—about 61%. Under the peculiar regulatory theories prevailing in Massachusetts, surplus is apparently not recognized as part of the rate base. As the company already has a comfortable surplus on its books, the management sees no reason to increase it further. Hence dividend payout is very liberal and will probably continue as liberal as taxes will permit. The present yield amply discounts some downward readjustment of the dividend—since normally a stock of this calibre should yield only about 5¼%.



Cincinnati Gas & Electric is a very old-line company—dividends have been paid nearly 100 years (originally on gas business). Under the peculiar regulatory set-up in Ohio, the cities have initial jurisdiction, although the state commission and state courts act as referees in any dispute. Statewide regulation is quite liberal, but at times certain cities—particularly Cleveland and Cincinnati—have been influenced by anti-utility politics. Cincinnati went through a few years of such difficulty but this has now been completely ironed out through new agreements with the City Administration, and earnings and dividends have improved. The new agreements permit adjustments for higher taxes, which should be helpful to the extent that the company takes advantage of them. Dividend policy has remained conservative, and with the added protection of the escalator clauses in the rate structure, the stock sells on a low yield basis.

Cleveland Electric Illuminating has also had some past troubles with the municipality, but these have been gradually ironed out through favorable decisions of the State Commission and the State Supreme Court, with resulting improvement in earning power. The company is conservatively capitalized, with an equity ratio of 47%. The management is highly aggressive in seeking new business, and has widely advertised the advantages of Cleveland as the industrial center of the East.

Commonwealth Edison, despite its ancient history as an Insull company, is now ranked with the investment leaders of the industry. The company itself serves the City of Chicago with electricity, and through subsidiaries serves both gas and electricity to a large area of northern Illinois. The company is conservatively capitalized with an equity ratio of about 50%. Earnings are "making a line', with new economies offsetting taxes; they are expected to remain around the level of $2.10 to $2.15 a share.

Consolidated Edison of New York is emerging from a period of "starvation" under the formerly severe regulation of the New York State Commission. This is now being eased in a number of ways, although the major decision over permanent gas and electric rates is still pending. The Commission is probably waiting to observe the effects of higher taxes and of the introduction of natural gas, so that a decision appears likely this spring or summer. The company is hopeful to obtain net benefits of perhaps 50c a share when this readjustment is made. Meanwhile earnings have made a favorable showing, tending to justify the rather bold action of directors in raising the dividend to $2 in advance of the Commission's decision. The stock enjoys a long dividend record and a strong balance sheet position.

Consumers Power

Consumers Power was the largest subsidiary in the former Commonwealth & Southern System, serving most of lower Michigan outside of Detroit. While the company has very substantial industrial business (largely automotive), it also serves a large number of farms. The $2 dividend rate appears well established although the payout is slightly on the high side considering potential tax inroads. This uncertainty is reflected in a generous yield.

(*Please turn to page* 581)

Pertinent Statistics on Leading Utilities

	Operating Revs. ($ million) 1950	1949	Net Per Share Full 1950	1950 Net Per Share Adjusted to* 47% Tax	1950 Net Per Share Adjusted to* 55% Tax	Div. 1950	Div. Yield	Recent Price	COMMENTS
ELECTRIC OPER. UTILITIES									
Boston Edison	$ 69.3	$ 64.1	$ 3.13	$ 2.65	$ 2.35	$ 2.80	6.5%	42½	High dividend pay-out is company policy, aided by high equity ratio; however, higher taxes might force moderate dividend cut.
Cincinnati Gas & Electric	49.6[1]	53.0	2.90[2]	2.53	1.95	1.70	5.1	33⅜	Dividend rate conservative, territory stable. No increase in dividend likely during period of heavy taxation.
Cleveland Electric Illuminating W	51.4[1]	63.3	3.35[2]	3.08	2.65	2.40	5.2	46⅛	The $2.40 dividend rate seems secure against tax inroads. Stock has investment quality. Management alert, aggressive.
Commonwealth Edison	199.8[1]	249.0	2.15[2]	1.93	1.60	1.60	5.6	28⅛	Dividend pay-out slightly on high side, but is adequately protected with 47% tax rate. Second largest company, conservative management.
Consolidated Edison W	392.7	366.3	2.44	2.17	1.90	1.70	5.4	31⅛	Increased $2 dividend is quite liberal but earnings are improving, and may be further bolstered by long-awaited rate settlement.
Consolidated Gas of Baltimore W	79.4	73.2	1.85	1.65	1.35	1.30	5.1	25⅝	Dividend fairly liberal but benefits of natural gas may offset higher tax rates. Long, conservative record.
Consumers Power	114.3	92.9	2.78	2.52	2.10	2.00	6.1	32¾	December earnings showed sharp gain, improving earnings picture. $2 dividend rate appears secure. Sound, conservative management.
Delaware Power & Light	15.2[1]	19.0	1.95	1.80	1.55	1.20	5.4	22	Estimated $1.90 earnings for 1950 should carry through 1951 except as affected by higher taxes. Dividend probably secure with 51% tax.
Detroit Edison W	110.5[1]	134.4	2.20[2]	2.05	1.80	1.20	5.2	22⅞	Dividend rate very conservative, though new stock issue will dilute earnings slightly. With high equity ratio stock has strong investment rating, despite heavy industrial KWH sales.
Indianapolis Power & Light W	20.5[1]	24.7	3.00[2]	2.75	2.30	1.60	5.6	28½	The very low dividend pay-out might permit a dividend increase to $2, but management may await effects of new tax legislation on earnings.
Niagara Mohawk Power	152.1	139.2	1.96	1.76	1.45	1.40	6.4	21¾	Will benefit substantially by 300,000 KW new steam capacity in 1951. Pay-out reasonable, yield attractive, but stock not fully seasoned.
Northern States Power	59.8[1]	76.4	.95[2]	.87	.71	.70	7.0	10	Earnings have proved a little disappointing, but dividend pay-out is reasonable. Company operates in stable area, with little regulation.
Ohio Edison	85.7	77.2	2.98	2.63	2.15	2.00	6.3	31⅞	Earnings have held up well, despite small EPT. $2 dividend seems safe against high taxes. Aggressive management.
Pacific Gas & Electric	237.9	217.5	2.62	2.17	1.95	2.00	5.9	34	Weak earnings postion bolstered by rate increases, but cost of gas increasing. Huge construction program requires new equity financing. Hydro conditions important factor.
Philadelphia Electric W	115.0[1]	140.0	2.25[2]	2.00	1.65	1.35	4.9	27¾	Increased earnings supported moderate dividend increase, which can probably be maintained. Sound management.
Southern California Edison W	104.6	100.1	3.16	2.90	2.50	2.00	5.8	34¼	Earnings retarded by special maintenance costs but $2 dividend seems generally safe. Company enjoys some oil income.
MFD. & MIXED GAS									
Brooklyn Union Gas W	42.2	39.7	3.60	3.20	2.70	2.25	5.7	39½	Dividend again raised recently, and might eventually reach $3 unless high taxes cancel 1951 gains from natural gas.
Peoples Gas Light & Coke W	62.8[1]	61.5	10.00[2]	8.55	7.30	6.00	4.8	123½	$6 dividend rate seems more or less "permanent." Improving earnings may offset tax inroads. Management conservative, stock has investment calibre.

***—Does not adjust for anticipated increase in pre-tax earnings in 1951—which in some cases might substantially offset heavier taxes.**

[1]—9 months.

[2]—Estimated.

W—Recommended for Income.

What About....
The TOBACCOS?

By FRANK R. WALTERS

★ ★ ★

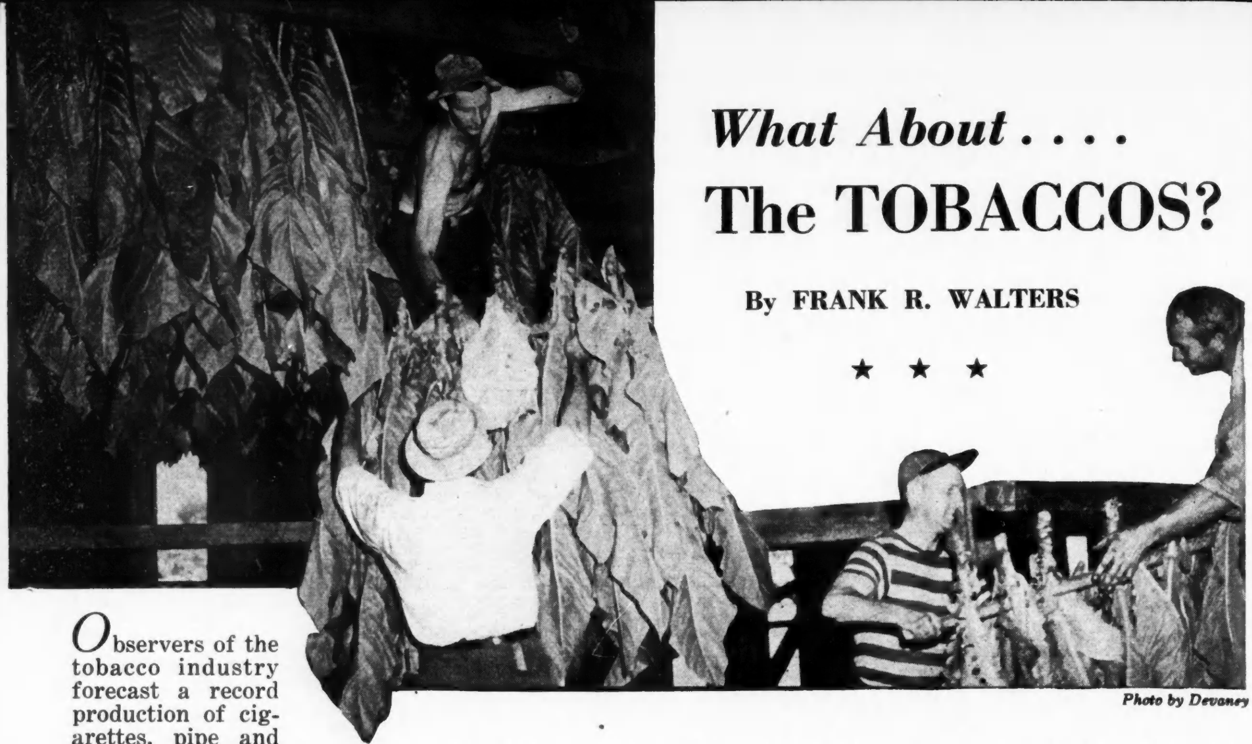


Photo by Devaney

Observers of the tobacco industry forecast a record production of cigarettes, pipe and chewing tobacco in the current year, while consumption of cigars and snuff should at least remain on a stable level. With the rearmament program stimulating a steady uptrend in national income and the armed forces certain to expand their orders for tobacco products, there is strong evidence for assuming increased consumption of tobacco products. The population, furthermore, is steadily increasing and a greater number of potential smokers are coming of age.

If 1951 results confirm present predictions, any gains achieved will be from a high base established last year. During 1950, output of cigarettes, the mainstay of the industry, reached an astonishing record of 395 billion, of which all but about 35 billion were for domestic consumption. Considering that prices of the leading brands have advanced about 42% within four years, this shows how little importance smokers place on the price tag, and suggests that the proposed 2 cents a pack rise in excise taxes would not seriously deter purchases later in the current year.

The supply of cigarette tobaccos, including flue cured, burleys and Maryland, promises to be adequate, aside from which all of the prominent manufacturers have accumulated unusually large inventories for aging, enough of which has been conditioned to meet requirements in the current year. While tobacco prices are about 15% above the 1949 level, the average price of inventories aged for three years has only moderately advanced.

By and large, accordingly, the outlook for an expansion in taxable earnings by the leading cigarette concerns is encouraging, though depending in part upon competitive influences. As operations in this industry are highly mechanized, the wage factor counts for relatively little. While heavier income taxes may reduce earnings slightly, most of the large firms have a favorable exemption base as to excess profits taxes. The outlook for fairly stable net earnings is thus encouraging, and 1951 dividend payments should not vary much from last year.

American Tobacco Company, the largest unit in the industry, maintained its lead in 1950 as the principal producer of cigarettes, although production of its "Lucky Strikes" declined from 91.4 billion in 1949 to 82.5 billion last year. As an offset, the company's "Pall Mall" brand rose by 38.2% to 23.5 billion for the largest gain in the field. An increase of 6% in cigarette prices in August widened margins thereafter, and as volume rose in the September quarter, the company in that period earned $2.40 per share versus $2.09 in the same 1949 span.

Retroactive income taxes, though, caused net earnings for nine months to decline to $5.31 a share from $5.88 the previous year. Although results for the final quarter and full year are not yet available, after allowance for excess profits taxes, 1950 earnings probably were around $6.90 per share compared with $7.90 a year earlier. Increased taxes in 1951 may reduce net moderately to not far from $6 per share, but an annual dividend rate of $4 per share, including $1 extra could be maintained.

Reynolds Tobacco Co.

Sales of R. J. Reynolds Tobacco Company last year rose to an all time high of $759.8 million, an advance of $13.5 million over 1949 when a previous record was established. Shipments of the company's "Camel" cigarettes increased slightly to 98.5 billion and held the lead in the industry for the second succeeding year. Production of "Cavalier" cigarettes also expanded, though shipments of smoking and chewing tobacco were somewhat less than in 1949. Good cost controls plus larger volume enabled Reynolds to establish remarkably stable earnings of $3.73 per share compared with $3.75 in 1949, despite allowance for considerably heavier taxes. Total Federal and State taxes on income rose by $9.2 million, of which approximately $3 million represented the recent increase in Federal income tax rates, while excess profits taxes accounted for almost $2.9 million.

The foregoing figures are interesting as a cue to operations of R. J. Reynolds in the current year, when a 47% income tax rate is effective and EPT will be imposed for the entire period rather than six months. If taxable earnings remain the same, they may be pared by about an additional $3 million taxes, equal to around 30 cents a share on the common and Class B stocks. To some extent this moderate charge could be diminished by the rise in cigarette prices last fall or by further operating economies. In any event, the inherent stability of net earnings by R. J. Reynolds should continue, and the conservative 50 cents a share quarterly dividends seem entirely secure, unless too burdensome additional taxes are imposed.

Liggett & Myers Tobacco Company, in reporting net earnings of $7.06 per share for 1950 versus $7.19 in 1949, deserves a good deal of credit for not showing a bigger decline. Drastic restrictions by the Philippine Government on the import of cigarettes largely accounted for a decrease of $27.1 million in the company's volume last year to $530.5 million. In addition to this handicap, an increase of approximately $4 million in Federal taxes pruned earnings to the extent of about $1 per share. Through employment of exceptionally flexible cost controls, however, the management lopped off $33 million in sales and administration expenses last year and, aided by higher cigarette prices in the second half, achieved $5.1 million larger operating profits than in the year before. On balance, final net earnings were very satisfactory.

The "Chesterfield" cigarettes of Liggett & Myers retained third place in industry sales during 1950, with total production of 66 billion, although this was 2.2% below the preceding year. Looking ahead, volume in the current year may somewhat reverse the 1950 downtrend, due to increased domestic demand. Operating earnings also may rise because of higher prices. Ample supplies of leaf tobacco seem assured by an increase of $22.7 million in inventories in 1950 for a total of $355.7 million.

Inventory Financing

To aid in financing the increased tobacco stocks, the company at the end of last year had borrowed $38.8 million on short term bank loans, virtually all of which it expects to repay by the end of the second quarter. Liggett & Myers enjoy an impregnable financial position with current assets exceeding current liabilities by about 4 to 1. While the company has a favorable exemption base as to excess profits taxes, roughly estimated at $6.45 per share, heavier imposts during 1951 may not leave much margin over this figure. Quarterly dividends of $1 per share seem safe, but there is some doubt that last year's extra of $1 at the year-end will be repeated, as even in 1950 total payments represented about 71% of net earnings.

The annual report of Philip Morris & Company will not be available until the end of its fiscal year on March 31, but the company's progress for nine months ended December (*Please turn to page* 575)

Position of Leading Tobacco Companies

	Net Per Share 1950	Net Per Share 1949	Net Current Assets -- ($ million) --	Inventories -- ($ million) --	Div. 1950	Price	Yield	Approx. Tax Exemption Base*	COMMENTS
American Snuff	$3.25[1]	$3.40	$13.6	$11.8	$3.00	41¾	7.2%	$2.55	A slight decline in earnings probable, but good cost controls should moderate a dip. A strong treasury position should help to stabilize dividends.
American Tobacco W	6.90[1]	7.90	450.8	531.5	4.00	66¼	6.0	6.00	Years of successful experience in a highly competitive industry promote confidence in the company's operations. A favorable tax exemption base suggests that no change in 1951 dividends is likely.
Bayuk Cigars	.94	.93	23.3	19.2	.80	12⅛	6.6	2.20	Inability to progress under heavy competition in the past two years has resulted in reduced earnings. Continued payment of 80 cents annual dividends is somewhat doubtful.
Consolidated Cigar	7.26	6.77	15.6	20.6	2.00[3]	33¼	6.0	5.65	Aggressive and ably managed concern with growth characteristics. Improved earnings despite increased taxes may lead to more liberal dividends this year.
General Cigar	1.00[1]	1.43	30.3	28.5	1.00	17⅛	5.8	2.20	Company has a favorable excess profit tax base, but unless operations improve in the current year, earnings may once more cover dividends by a scant margin, if at all.
Helme, G. W. W	1.99	2.30	14.3	7.1	2.00	26⅝	7.5	1.70	An established producer of snuff, with an excellent earnings and dividend record that bespeaks good management. Strong finances permit liberal dividend policies.
Liggett & Myers	7.06	7.19	332.1	380.7	5.00	75⅝	6.6	6.45	Exceptionally good cost controls and aggressive sales policies, plus a satisfactory tax position, should combine to maintain stable dividends this year.
Lorillard	2.78[1]	2.73	70.4	74.9	1.85	24½	7.5	1.95	Able promotion of "Old Gold" cigarettes has created relatively stable earnings that should continue to sustain dividends at an annual rate of about $1.85 per share.
Philip Morris W	6.75[2]	7.26	105.6	159.6	3.50	54½	6.4	4.40	Dynamic progress in the past few years has encouraged expansion of facilities. 1951 outlook bright and conservative dividends at annual rate of at least $3.50 per share are assured.
Reynolds Tobacco "B"	3.73	3.75	409.7	475.8	2.00	33⅞	5.8	2.80	Company's "Camel" brand cigarettes continue to lead the field, evidencing successful promotional policies. A relatively good tax position should stabilize earnings and dividends.
U. S. Tobacco W	1.45[1]	1.52	19.5	16.7	1.35	19⅜	6.9	1.20	A leading snuff manufacturer strongly entrenched in the trade; an unbroken dividend record since 1912 attests to well managed operations. Annual dividends at the rate of $1.35 per share seem secure.

1—Estimated.
2—Estimated for fiscal year ending March 31, 1951.
*—Per share, based on 85% of best 3 year average 1946-49.
3—Plus stock.
W—Recommended for Income.

FOR PROFIT AND INCOME

"Beware"

The classical warning to "beware the ides of March" does not apply too well to the stock market. There is no "seasonal tendency" in this month. Looking over the chart back to and including 1920, one notes that the Dow-Jones industrial average had a material net rise for March as a whole in 10 years, a material net decline in 10 years and was little changed in the other 11 years. As you would expect in any month, the average tendency has been up in bull-market years, down in bear-market years — with the usual exceptions of some bear-market rallies or bull-market reactions, or the occasional do-nothing periods which, in bull or bear markets, can affect the results for any given month. March has a bad reputation with some traders of long memory because sharp declines in this month have considerably exceeded the number of sharp advances. About the only spectacular percentage rise since 1920 was in March, 1933, from a panic low. On the other hand, March results ranged from poor to very bad in 1947, 1942, 1939, 1938, 1932 and 1931. March saw the start of the 1937-1938 bear market. In the sense that a long advance always increases the potential for a spill, this column would not have too much confidence in March, 1951.

Groups

There is evidence of two internal changes, of possible significance, in the market in the last few weeks. Demand for war stocks has been less emphatic, on the whole, than for some time previously; demand for peace stocks has been moderately greater. At the same time, the cats and dogs, on an average provided less upside leadership. Conceding that enthusiasm for war stocks had been perhaps overdone, it is hard to see a basis for a really bullish view on many of the peace-stocks which have now set new 1951 highs, especially autos and auto parts, building stocks, finance-company stocks, proprietary drugs, movies, etc. The cats and dogs have topped out ahead of the market in two out of three major turning points since 1929. Of course, the changes cited may prove transitory. They will bear watching.

Inflation

Inflation necessarily means something to the stock market, but not nearly as much as the brokers' letters would have you believe. Inflation is a broad word, often loosely used. Most of us are concerned by the result of inflation: that is, rising commodity prices. If you chart stock market and commodity prices, you will find many periods of wide divergence between the two trends; and neither has ever had, or will ever have, a one-way street. To cite a few instances, the Dow Industrial average fell about 24% between December, 1915, and December, 1917, while the consumer's price index at the same time rose about 32%. The market fell sharply from a November, 1919, high, although price inflation continued for some months. We had the greatest of all bull markets in 1924-1929, with a slight downward bias in commodity prices. From the autumn of 1939 to the spring of 1942 we had a major bear market while commodity

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
American Woolen Co.	Year Dec. 31	$4.39	$1.18
American Cyanamid Co.	Year Dec. 31	10.14	6.15
Bristol-Myers Co.	Dec. 31 Quarter	.87	.35
Pacific Lighting	Year Dec. 31	5.88	2.86
American Machine & Metals	Year Dec. 31	2.49	.78
Rheem Mfg. Co.	Year Dec. 31	4.75	2.51
Champion Paper & Fibre	Dec. 31 Quar.	2.45	1.95
Denver & Rio Grande Western R. R.	Year Dec. 31	12.49	6.33
Illinois Central R. R.	Year Dec. 31	20.62	11.01
Warren Petroleum Corp.	6 months Dec. 31	2.01	1.38

prices trended up. Finally, if your memory is short, we remind you that, with an upward commodity price trend which was bound to be accelerated by the Korean war, the outbreak thereof nevertheless precipitated a 31-point fall in the Dow average.

Stocks

It is easier to talk about inflation-hedge stocks than to select issues that will live up to the name over a long-term period—and, of course, it has to be a long-term matter; for, otherwise, you might as well forget inflation and concern yourself with the cyclical ups and downs of the market pretty much as usual. Regardless of inflation, individual stocks may rise more than the market, lag behind, or perform pretty much in line with the market. An out-of-line performance either way is due to individual company or industry reasons. It would take about an 80% rise in stock prices to offset dollar depreciation since 1939. The Dow industrial average has risen less than that since the end of 1939. International Nickel, generally regarded as an inflation-hedge stock, has risen much less than the market for this long period, on balance. Ditto for sugar stocks. Copper stocks rose moderately less than the market. Oil stocks, on the same comparison, worked out well. However, you would have fared better in paper stocks and tire stocks than in most oils. Yet few people would have classed these in 1939 as inflation-hedge stocks.

Growth

Stocks of outstanding companies are ideal in every respect. They rise more than the market over a long-term period, and hence are good inflation hedges. They generally decline less than the market in bear markets. And they eventually provide an above-average income return. The trouble is that, while you can select a company which has been growing, there is no assurance that it will continue to grow at the past rate, if it continues to grow at all. And there will be times when your patience is tried. Take Dow Chemical, a highly regarded growth stock. Its sequence of long-term highs has been: 1929, 15⅛; 1937, 39¾; 1946, 48, and 1950 to date 93. There is nothing the matter with that performance. Yet if you had bought this stock at its 1940 high of 42¾, you would have seen it sag down to 23¾ in 1942, and you would have waited about six years, to 1946, to see it rise above your 1940 buying price.

Obscure

The richest long-term rewards, of course, are in stocks of small, obscure companies which become highly successful. But such situations become recognizable only after a growth trend has been well established. Frequently, it is a wholly individual matter, unrelated to any industry trend. For example, back in 1929, you would have seen no major growth potentials in scotch tape, coated abrasives, adhesives, etc. If somebody had tipped you to buy Minnesota Mining & Manufacturing, which had a 1929 range of 7¼-4⅞, and which earned 71 cents a share that year, you probably would have passed it up as a speculative "dog." Recently this stock, allowing for a 2-for-1 1945 split and a 4-for-1 1950 split, sold at the equivalent of 176. Estimated 1950 earnings were more than 15 times those of 1929.

Middle Road

The reasonably conservative investor has to be content with clearly defined growth potentials. In short, he has to aim at better-than-average results, with little or no chance for spectacular results. A stock worth considering is Sutherland Paper, a gradual growth situation which has paid unbroken dividends since 1923. The company makes paper containers, trays, dishes, cups, etc. Since 1940 sales and net income have roughly tripled. However, sales are still only around $30 million a year, total assets around $25 million, and there are only 344,015 shares of common stock outstanding. In short, this well managed company is still small enough to have substantial further growth over the years. In comparison with the paper group, which is much above its 1946 high, this stock seems undervalued at current price of 50. It sold as high as 55¼ in 1946 on earnings of $4.68 a share and a $1.75 dividend. The dividend is now $2.50, inclusive of year-end extras, and has been paid for the last four years; and 1950 earnings were a record $7.66 a share. Since earnings averaged $5.85 a share for the three best postwar years, the EPT exemption under present law is pretty good.

Tax Test

Growth companies in many cases get at least some special consideration in the present tax law. To qualify there are two tests: (1) assets at the start of 1946 must not have exceeded $20 million; and (2) sales during 1948-1949 must have been at least 50% over 1946-1947, or payroll must have risen at least 30% in the same period. A few of the many companies that qualify include Granite City Steel, Kawneer, National Automotive Fibres, Sunbeam Corp., DuMont, and Motorola. But no outsider can figure the EPT exemptions. That is a task for company accountants and tax experts, working with income data which in many cases differs from that in published statements.

Deal?

Atlas Corp., an investment trust which prefers "special situations" to ordinary investment—although it does some of the latter—bought heavily into Atlantic Refining in 1950, showing year-end holdings of 192,500 shares, valued in the market at $14.2 million. This is the largest Atlas holding, followed by Sunray Oil, with a market value of nearly

(*Please turn to page* 580)

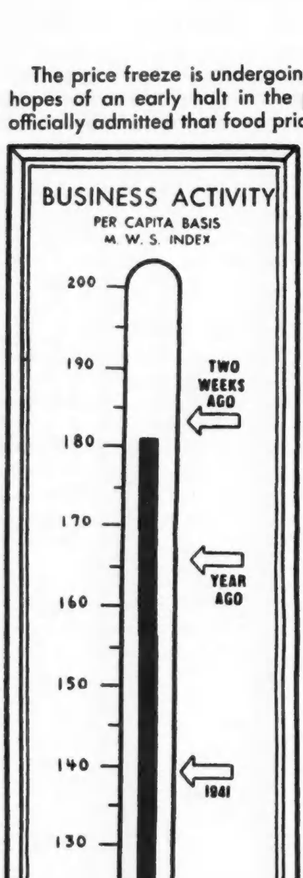
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Columbia Broadcasting System	Year Dec. 30	$2.39	$2.44
Penna.-Dixie Cement	Dec. 31 Quar.	1.11	1.25
Sheaffer (W. A.) Pen Co.	Nov. 30 Quar.	1.53	1.64
Nehi Corp.	Year Dec. 31	.84	.91
North American Aviation	Dec. 31 Quar.	.39	.40
Purity Bakeries Corp.	12 Weeks Dec. 30	.86	1.11
Endicott Johnson Corp.	Year Nov. 30	1.36	2.48
Garrett Corp.	6 mos. Dec. 31	1.25	1.32
Hat Corp. of America	Year Oct. 31	1.40	1.83
McKesson & Robbins, Inc.	Dec. 31 Quar.	1.38	1.65

What's Ahead for Business?

By E. K. A.

The price freeze is undergoing a rapid thaw and with it go hopes of an early halt in the price and wage uptrend. It is officially admitted that food prices will continue to rise at least until mid-year and that nothing will be done about it. The catch of course is that food prices virtually defy controls as long as the parity concept for farm products prevails. Many farm products cannot be pegged until they rise further, and farm prices generally are estimated to advance between 5% and 10% in the months ahead. Two possible "outs" have been suggested—revision of the parity formula or the use of subsidies. The former is politically distasteful and thus unlikely to be attempted, certainly not soon. The latter is merely the old and rejected Brannan plan in disguise. Congress will hardly go for it; the taxpayers are bound to object strenuously.



With higher food prices virtually certain, the chances of holding the wage line grow dimmer by the day. They were never particularly good. A sixth round of wage boosts becomes inevitable; the only question is its size. The fifth round will be completed following approval by the Wage Stabilization Board to all lagging companies to grant increases of up to 10%. Then the road is clear for the next round, likely to start early next month when auto workers will begin to exert pressure for higher wages under the cost-of-living clause in their contract.

All of which makes it virtually certain that wage-price stabilization at this stage will prove a complete flop. Inflation remains unarrested; even the stabilizers are showing signs of disgust and complain about lack of public cooperation. Labor will be quick to absolve itself from all blame, pointing to rising living costs. The price stabilizers will point to the law that exempts farm products. All true enough. The fact is that the Administration is trying to halt inflation with half-measures, shying away from politically unpalatable measures. This reluctance is the real culprit. Control efforts simply are not stern enough to be successful.

A measure of what civilian shortages are ahead is afforded by announcement that steel for such things as autos, major appliances etc. will be cut 40% beginning April. While it doesn't mean that production in these fields will immediately be cut in like manner, it does portend a declining output trend rather sharper than anticipated some weeks ago. And the downtrend will widen and broaden with the start of a Controlled Materials Plan now expected July 1. Civilian hard goods manufacturers will be able to stay in business even then, but production potentials will be sharply lowered in many lines. Arms orders, now rapidly mounting, should come to the rescue. Over-all, the civilian goods supply will nevertheless remain large.

Slackening Retail Trade

The way retail trade held up since the turn of the year has been impressive but the pace now is slackening. Some attribute it to the price freeze—badly miscalled as this action now seems, to greater consumer assurance that there is no longer need to "beat" rising prices. We wouldn't know, and in fact we are inclined to doubt it.

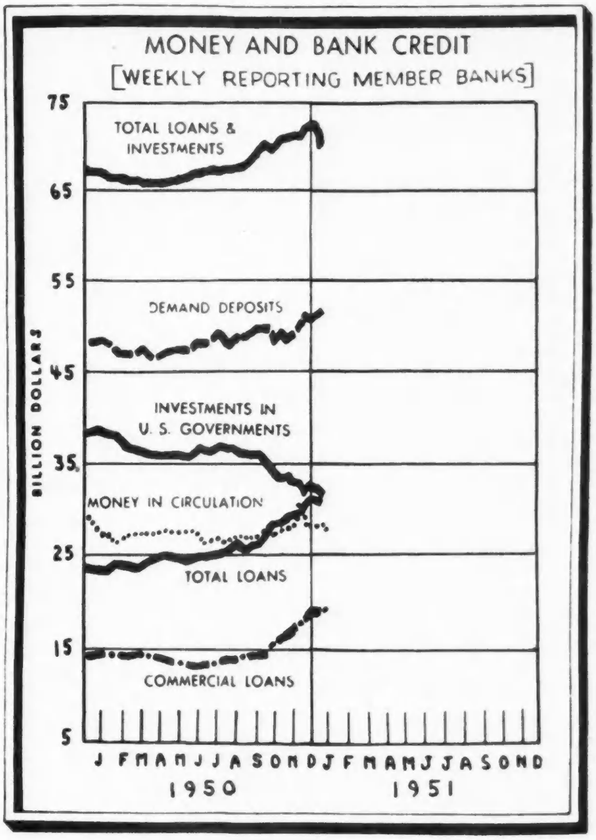
At any rate, while department store sales in the early January weeks were 31% and 39% higher than in the comparable periods a year ago, the net gain in the final January week was only 25%. In the week ended February 3, this margin has been further narrowed to a mere 3%, and in quite a few districts there have been declines, ranging as high as 11% in the St. Louis area. The San Francisco district, on the other hand, showed a gain of 24%, highest of all.

These signs of slackening retail trade are said to encourage stabilization officials on the theory that upward price pressure will now lessen. It's doubtful that it will, even if consumer buying tapers off further. Prices after all are primarily controlled by costs, both of materials and labor, and costs show no signs of standing still as previously outlined. New evidence of higher retail prices to come thus may well restart the consumer urge to get ahead of the game. Higher prices are due, for instance, on cotton and woolen goods and apparel since material prices have risen far more than retail prices. No early relief from pressure seems in sight.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The debate on the Government's easy money policy continues but with a cloak of secrecy now surrounding the discussions. The bickering of course doesn't help but merely feeds the fires of inflation. So does the further increase in business loans. Thus commercial loans in the New York area bounced up by $127 million for the week ended last Wednesday, for the third highest weekly gain recorded since the early upward trend set in last June. Federal Reserve statistics show that the total of these loans now has reached a new all-time high of $6,562 million (in the New York area alone). In registering gains in the first five weeks of the current year, business loans in 1951 have advanced $257 million, nearly five times as much as in the corresponding period last year. Nationwide, business loans started out in February with a towering $18 billion, highest ever and up about $4.5 billion in a year. Loans normally go down after Christmas but there was scarcely any seasonal drop as the year opened. By January 24, the December peak had already been surpassed and new weekly gains were scored successively. The need for a tighter rein on bank credit is showing up all too plainly. After all, inflation feeds on a rising money supply, and the money supply is inflated by bank loans. It is also inflated by the Federal Reserve bond market support policy. Banks needing money for loans need only sell Government bonds—of which the banking system as a whole still holds about $32 billion—the Federal Reserve will take all offerings off the market at a pegged price, thus precluding any loss from bond sales. Government bonds, in a very real sense, have become interest-bearing money under this policy; and the Government debt has been increasingly monetized. For the last year or so, banks have been selling more than $5 billion of their bond holdings, investing the proceeds in loans and other investments yielding a higher return. The nation's gold stock in the week under review dropped another $51 million, the 27th drop in the last 28 weeks. The decline since July 19 last now aggregates $1.866 million and of this total, $365 million has been recalled from this country since January 1.



TRADE—Increases in retail trade over last year's volume are diminishing. Weekly gains that ranged as high as 58% for some districts have fallen to a fraction of that amount. Adverse weather conditions and the railroad strikes may have accounted in part for the slowing down; but generally, the downtrend from the January peaks seems to indicate that the public at this time is not rushing in to buy with the former enthusiasm. The price freeze may or may not have aided this trend. Strong promotional efforts are now in the offing to keep the pot boiling. Meanwhile it is thought that the overall increase in retail prices of non-food products will not be much over 5% as the result of the "unfreezing" currently going on.

INDUSTRY—The steel industry's operating rate was hit materially by the rail strikes and to some extent by cold weather in certain sections. Most areas are still feeling the effects of the rail tie-up on production and deliveries generally, and this may last several weeks. As far as steel is concerned, many urgently needed defense orders had to be pushed back on mill schedules and the lag in shipments won't be overcome for some time.

COMMODITIES—The thawing of the general price freeze is now under way. There will be various roll-backs, according to Washington information, but the probabilities are that their number will be far smaller than the number of upward price revisions. This means that the general price level will continue to rise despite the "freeze". The hope is that, nevertheless, price controls despite their lack of rigidity will slow down the price rise that has been underway for many months, but not until another 5% to 10% rise in the cost-of-living has occurred.

Average **WEEKLY EARNINGS** of factory production workers rose to $64.15 at the end of 1950, an increase of $8 for the year as a whole. The November-to-December gain averaged $1.77, according to the BLS. Gross hourly earnings averaged $1.54, up thirteen cents over the year. The gains reflected both the lengthening of the average work week and widespread advances in wage rates. Typical work weeks rose to 41.6 hours in mid-December, up almost two hours for the year 1950.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Jan.	1.78	1.70	1.14	1.55
Cumulative from mid-1940	Jan.	407.8	406.1	392.0	13.8
FEDERAL GROSS DEBT—$b	Feb. 7	256.6	256.1	256.6	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Jan. 31	54.2	51.6	47.8	26.1
Currency in Circulation	Feb. 7	27.1	27.0	27.0	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Jan. 31	10.70	10.64	8.93	4.26
93 Other Centers—$b	Jan. 31	17.08	17.14	12.74	7.60
PERSONAL INCOMES—$b (cd2)	Dec.	244	236	211	102
Salaries and Wages	Dec.	160	159	138	66
Proprietors' Incomes	Dec.	47	46	41	23
Interest and Dividends	Dec.	25	19	19	10
Transfer Payments	Dec.	12	12	12	3
(INCOME FROM AGRICULTURE)	Dec.	23	22	17	10
POPULATION—m (e) (cb)	Dec.	152.4	152.2	150.4	133.8
Non-Institutional, Age 14 & Over	Dec.	111.3	111.2	110.2	101.8
Labor Force	Dec.	64.7	65.4	63.5	57.5
Military	Dec.	2.19	1.94	1.43	1.89
Civilian	Dec.	62.5	63.5	62.0	55.6
Unemployed	Dec.	2.2	2.2	3.5	3.8
Employed	Dec.	60.3	61.3	58.6	51.8
In Agriculture	Dec.	6.2	7.6	6.8	8.0
Non-Farm	Dec.	54.1	53.7	51.8	43.8
At Work	Dec.	52.5	52.3	50.4	43.2
Weekly Hours	Dec.	41.2	41.1	41.3	42.0
Man-Hours Weekly—b	Dec.	2.16	2.15	2.08	1.82
EMPLOYEES, Non-Farm—m (lb)	Dec.	46.2	45.8	43.7	37.5
Government	Dec.	6.4	6.0	6.0	4.8
Factory	Dec.	13.0	13.0	11.5	11.7
Weekly Hours	Dec.	41.6	41.2	39.8	40.4
Hourly Wage (cents)	Dec.	154.2	151.4	140.8	77.3
Weekly Wage ($)	Dec.	64.15	62.38	56.04	21.33
PRICES—Wholesale (lb2)	Feb. 6	182.2	180.9	152.1	92.5
Retail (cdlb)	Nov.	194.8	193.9	185.7	116.2
COST OF LIVING (lb3)	Dec.	178.4	175.6	167.5	100.2
Food	Dec.	215.4	209.5	197.3	113.1
Clothing	Dec.	196.4	195.0	185.8	113.8
Rent	Dec.	125.8	125.4	122.2	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Dec.	14.4	11.6	12.8	4.7
Durable Goods	Dec.	4.2	3.7	3.4	1.1
Non-Durable Goods	Dec.	10.2	7.9	9.4	3.6
Dep't Store Sales (mrb)	Dec.	1.5	1.0	1.4	0.4
Retail Sales Credit, End Mo. (rb2)	Dec.	12.1	11.5	10.1	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Dec.	24.2	22.4	16.0	14.6
Durable Goods	Dec.	12.2	10.6	6.9	7.1
Non-Durable Goods	Dec.	12.0	11.5	9.1	7.5
Shipments—$b (cd)—Total	Dec.	21.6	21.3	16.1	8.3
Durable Goods	Dec.	9.9	9.6	6.7	4.1
Non-Durable Goods	Dec.	11.7	11.7	9.4	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Dec.	61.0	61.4	51.2	28.6
Manufacturers'	Dec.	34.1	32.9	29.0	16.4
Wholesalers'	Dec.	10.8	10.6	9.1	4.1
Retailers'	Dec.	16.1	17.9	13.1	8.1
Dept. Store Stocks (mrb)	Dec.	2.3	2.9	1.9	1.4
BUSINESS ACTIVITY—1—pc	Feb. 3	181.7	184.1	166.4	141.8
(M. W. S.)—1—np	Feb. 3	215.0	216.8	193.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 567)

According to Dun & Bradstreet, **NEW BUSINESSES** incorporated in 1950 totalled 92,925 compared with 85,491 in 1949 and 132,916 in 1946. It is notable, however, that despite last year's uptrend, the gains stopped in August. Since then each month's figures have been under the comparative period of the previous year. As a result, fewer new companies are presently being formed than at any time since the end of World War 2. The downtrend, in evidence since Korea,, may be expected to continue for some time.

* * *

Since the beginning of the year, **BUSINESS FAILURES** have been running consistently under comparative 1950 figures, with failures in the first five weeks of the year aggregating 856 against 1,030 in the like 1950 period. The weekly average this year was 171 against 206 last year, according to Dun & Bradstreet.

* * *

A growing "private market" for corporate securities has provided more than one-third of industry's new money in the postwar years. The importance of this market is indicated by the fact that of $26.8 billion in **NEW CORPORATE SECURITIES** issued in the four postwar years 1946-49, $9.9 billion was placed directly by private transactions. The 18 largest life insurance companies alone acquired directly negotiated issues amounting to $8.95 billion, or 90% of the total.

* * *

The public, after paying its taxes, had more **DOLLARS TO SPEND** in 1950 than in any other year in American history. The total either saved or spent aggregated $202 billion compared with $187 billion in 1949 and $188.4 billion—the previous high—in 1948. It should be added, however, that the dollar particularly last year deteriorated a good deal in purchasing power. Some hold that we currently haven't even got a 50c dollar, that its purchasing power is closer to 40c in terms of what it bought before World War 2.

* * *

CONSUMER EXPENDITURES are estimated by Government economists at approximately $191 billion last year, also an all-time high. They are expected to amount to even more this year, despite rising taxes, goods shortages, etc. Estimates for this year range from $200 to $210 billion—with price inflation again a powerful factor in these calculations.

* * *

It is understood that the **RETAIL PRICE ORDER** shortly expected will cover about 85% of all non-food items. The price thaw

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Dec.	216	215	179	174
Mining	Dec.	158	160	132	133
Durable Goods Mfr.	Dec.	268	260	203	220
Non-Durable Goods Mfr.	Dec.	193	195	176	151
CARLOADINGS—t—Total	Feb. 3	651	784	612	833
Manufacturers & Miscellaneous	Feb. 3	328	392	322	379
Mdse. L. C. L.	Feb. 3	68	81	81	156
Grain	Feb. 3	44	54	40	43
ELEC. POWER Output (Kw.H.) m	Feb. 3	7,099	6,970	6,062	3,267
SOFT COAL, Prod. (st) m	Feb. 3	9.5	11.4	6.5	10.8
Cumulative from Jan. 1	Feb. 3	54.9	54.5	34.4	44.6
Stocks, End Mo.	Dec.	72.5	72.1	45.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 3	5.9	6.0	4.5	4.1
Gasoline Stocks	Feb. 3	130	126	127	86
Fuel Oil Stocks	Feb. 3	41	40	54	94
Heating Oil Stocks	Feb. 3	10	10	7	55
LUMBER, Prod.—(bd. ft.) m	Feb. 3	636	733	445	632
Stocks, End Mo. (bd. ft.) b	Nov.	2.2	2.2	2.2	12.6
STEEL INGOT PROD. (st) m	Dec.	8.36	8.01	7.73	6.96
Cumulative from Jan. 1	Dec.	96.7	88.3	77.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 3	556	235	142	94
Cumulative from Jan. 1	Feb. 3	2,058	1,502	1,218	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 3	346	204	249	165
Whiskey, Domestic Wales (tax gals.)m	Dec.	6.9	6.6	5.2	8.1
Do., Stocks End Month	Dec.	694	684	610	506
Cigarettes, Domestic Sales—b	Dec.	25	30	25	17
Motor Vehicles; Factory Sales—t	Dec.	641	604	359	352
Pneumatic Casings Production—m	Nov.	7.5	6.6	6.0	4.0

PRESENT POSITION AND OUTLOOK

will affect clothing, furniture, housewares and most other items sold in department stores, and will result in a number of price increases and a smaller number of price reductions. On the other hand, the retailer's margin between what he pays and what he receives will be frozen at what officials call their "historic and normal" levels. It is understood that these will closely approximate those prevailing last June, before outbreak of the Korean war.

* * *

BANK CLEARINGS for the week ended February 7 increased 7.6% over the corresponding 1950 week and were 6.6% less than in the previous week. Largest increases were reported from western districts where percentage gains ranged up to 34%.

* * *

The railroads' **CAR LOADINGS** dropped off 17% in the week ended February 3 as a result of the rail strikes at strategic terminal points, but remained 6.3% above the corresponding week in 1950 when loadings were reduced by restricted coal mining operations.

* * *

Smelters of **SLAB ZINC** shipped 70,848 tons to domestic consumers in January as against 72,342 tons in the previous months. Production increased slightly to 10,212 tons. Shipments were 79,584 tons.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for populatoin growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

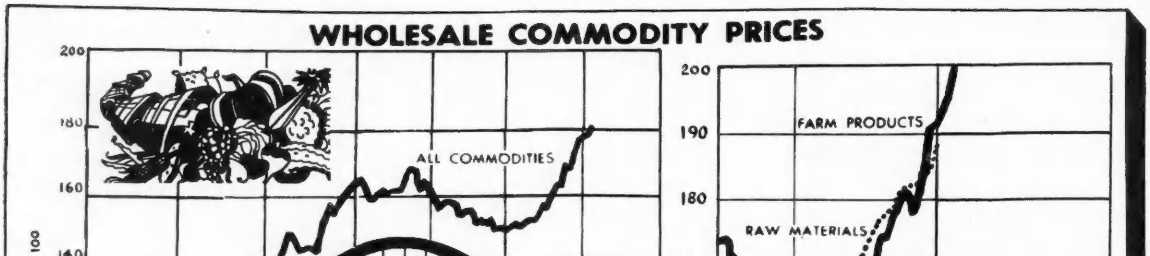
No. of Issues (1925 Close—100)	1950-51 Indexes High	Low	Feb. 3	Feb. 10
334 COMBINED AVERAGE	196.8	134.7	194.2	196.8Z
4 Agricultural Implements	292.7	180.7	273.9	292.7S
10 Aircraft ('27 Cl.—100)	333.0	170.8	311.5	333.0Z
7 Air Lines ('34 Cl.—100)	725.5	450.3	725.5D	708.2
8 Amusement	104.4	78.0	94.0	101.4
10 Automobile Accessories	256.7	195.6	256.0	256.7D
11 Automobiles	46.0	28.5	46.0D	45.3
3 Baking ('26 Cl.—100)	23.3	19.0	21.7	22.7
3 Business Machines	343.3	226.5	333.8	343.3D
2 Bus Lines ('26 Cl.—100)	183.1	145.9	173.3	169.4
6 Chemicals	364.3	256.4	362.8	364.3T
3 Coal Mining	18.3	11.3	17.6	17.5
4 Communication	67.7	41.9	66.4	67.7D
9 Construction	67.6	51.3	66.4	67.6B
7 Containers	412.8	282.1	401.6	409.2
9 Copper & Brass	146.5	80.3	142.4	146.5S
2 Dairy Products	83.7	68.1	79.4	80.8
5 Department Stores	84.5	56.6	84.5D	83.1
6 Drugs & Toilet Articles	235.0	170.2	235.0D	235.0
2 Finance Companies	361.8	232.8	266.3	269.0
7 Food Brands	200.9	162.0	193.6	200.9D
2 Food Stores	116.2	86.3	116.2S	115.8
3 Furnishings	80.8	60.7	73.4	75.0
4 Gold Mining	753.5	509.7	661.7	685.6

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 3	Feb. 10
100 HIGH PRICED STOCKS	117.01	85.27	115.49	117.01R
100 LOW PRICED STOCKS	245.77	151.88	244.15	245.77D
5 Investment Trusts	88.5	66.5	88.5	88.7R
3 Liquor ('27 Cl.—100)	1202.0	797.3	1187.3	1202.0D
11 Machinery	205.0	140.6	204.6	205.0D
3 Mail Order	152.0	99.6	145.0	152.0D
3 Meat Packing	109.1	85.9	100.2	104.1
13 Metals, Miscellaneous	280.9	139.9	275.4	280.9D
4 Paper	371.2	213.4	369.1	371.2Z
29 Petroleum	389.8	243.0	383.4	389.8Z
30 Public Utilities	153.7	127.7	145.7	146.3
9 Radio & TV ('27 Cl.—100)	35.3	18.1	30.5	28.8
8 Railroad Equipment	73.8	43.0	72.0	71.8
24 Railroads	45.4	22.3	42.9	45.4N
3 Realty	40.7	30.7	40.7D	40.4
3 Shipbuilding	181.0	139.7	172.8	180.2
3 Soft Drinks	395.5	295.9	379.6	384.6
15 Steel & Iron	169.5	96.1	169.5T	168.5
3 Sugar	74.7	48.7	74.2	74.7D
2 Sulphur	470.9	301.6	470.9Z	468.7
5 Textiles	218.5	119.9	210.8	218.5Z
3 Tires & Rubber	55.9	32.0	54.9	55.9T
6 Tobacco	88.2	77.3	86.1	86.1
2 Variety Stores	352.3	303.3	320.7	319.5
20 Unclasified ('49 Cl.—100)	127.3	93.2	127.3A	126.0

New HIGH since: A—1949; B—1948; D—1946; N—1937; R—1931; S—1930; T—1929. Z—New all-time HIGH.

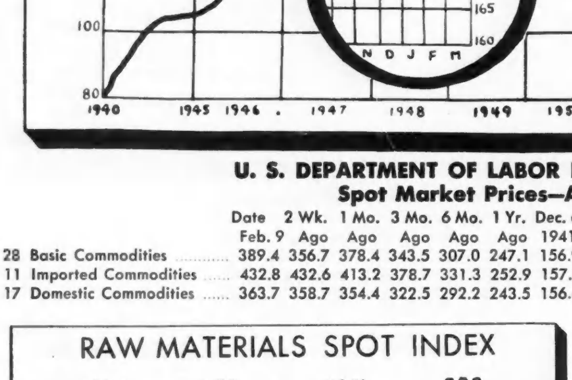
Trend of Commodities

Grain markets continued on the upgrade last week with all deliveries of wheat, corn, oats and soybeans reaching new high ground since 1948 before reacting on profit taking and slackening of outside buying. Markets then turned quieter in anticipation of announcement of price ceilings on soybeans and some other commodities. The cotton market remained closed because cotton traders find it impossible to do business under the general price ceiling orders of January 26; cotton marketing thus has been paralyzed for over two weeks and at this writing there is no indication when the markets will re-open. Price Stabilizer Di Salle stated he will not attempt to hold back food prices until farm products reach parity levels; also that he will not ask Congress to provide subsidies that could be used either to roll back the prices of foods or prevent further increases in foods currently selling below parity—the minimum permissible ceilings under the Defense Production Act. Elsewhere the price ceiling order kept several commodity futures markets inactive, apart from cotton. The New York Wool Exchange voted to continue suspension of activities, and trading in hides and metals also remained in abeyance, as did trading in cottonseed oil futures. Rubber declined moderately, reflecting easiness in the London market. Sugar was irregular with world contracts largely unchanged but domestic contracts slightly lower. Coffee trading was quiet due to price control confusion but prices held steady. Lagging manufacturer demand removed support from the cocoa market and depressed values substantially. The Spanish mercury trust limited mercury exports to 250 flasks to a buyer to hold up prices in the face of leveling-off of soaring world prices. Evidently the Trust would like to perpetuate current profits.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

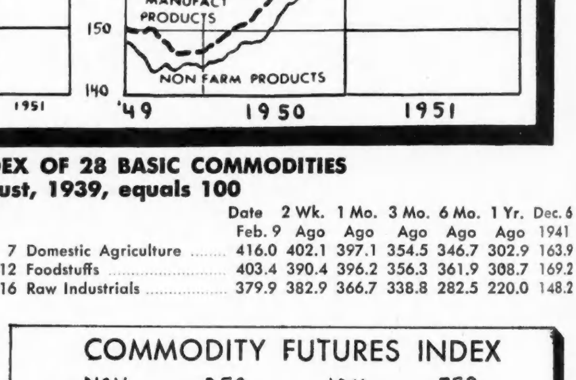
	Date Feb. 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	389.4	356.7	378.4	343.5	307.0	247.1	156.9
11 Imported Commodities	432.8	432.6	413.2	378.7	331.3	252.9	157.3
17 Domestic Commodities	363.7	358.7	354.4	322.5	292.2	243.5	156.6
7 Domestic Agriculture	416.0	402.1	397.1	354.5	346.7	302.9	163.9
12 Foodstuffs	403.4	390.4	396.2	356.3	361.9	308.7	169.2
16 Raw Industrials	379.9	382.9	366.7	338.8	282.5	220.0	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	213.4	204.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	204.2	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	213.0	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	202.0	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

1951 marks a milestone in the history of **Pepperell Manufacturing Company** that is probably unique in the annals of American enterprise, at least for a manufacturing company whose stock is owned by the public. 100 years ago, a textile mill of this same name began operations, and since then has never failed to pay dividends regularly in every year. Certain banks, railroads and insurance companies have established similar and even better records, but for a manufacturer the experience of Pepperell seems to be unequalled. It is interesting to consider the numerous years of major wars, panics and depression through which this company passed without disappointing its owners.

The use of small lift trucks that scoot around plants to effect the handling of materials has become so commonplace, that their improvement has involved mainly design and efficiency. **Yale & Towne Manufacturing Company,** though, has developed for the steel industry a giant version of these midgets, in the form of a lift truck with an 80,000 pound capacity, powered by a unique diesel-electric unit of the same size used in a 25-ton locomotive. The need for this equipment was made evident by the fact that modern continuous strip mills could roll faster than material could be supplied or carried away. By the use of this titan truck, much larger coils than formerly can be handled, thus reducing production costs, yet to operate the vehicle's lift, up to 80,000 pound coils can be handled by a fingertip touch of the steering wheel.

Mexico has taken a page from the experience of United States oil operators by starting construction of a 155 mile pipe line that will have the distinction of being the only coast-to-coast line in the Americas. **Petroleos Mexicanos (Pemex)** has undertaken this project across the Isthmus to handle an initial 15,000 barrels of gasoline, kerosene and diesel oil daily from Minatitlan on the East Coast to a terminal at Santa Cruz to supply Mexican West Coast markets. It is estimated that the pipe line will bring annual savings of more than a million dollars in transportation costs and release about 200 tank cars for other service, besides improving domestic distribution. By adding another pumping station, the capacity of the pipe line can be doubled, a step likely to be taken when a projected new refinery on the Pacific Coast is completed.

Lever Brothers Company has announced a long range, major construction program which will establish at Pagedale, near St. Louis, one of the country's largest and most complete manufacturing centers for a wide variety of detergents, vegetable shortening and margarine. Excavation is already under way for the first unit, a $5 million facility to produce and warehouse detergents. This plant will cover three acres of a 27 acre site acquired by Lever, and should be completed early in 1952. The plan is to gradually construct other plants over a period of years that will be coordinated into a carefully formulated scheme as circumstances may dictate.

While the introduction of diesel locomotives has almost spectacularly reduced railroad operating costs, it begins to look as if the new type of box car developed by **General American-Evans Company** will effect other substantial economies. Since last summer, the first 25 of these GAEX-DF box cars have been used on regular routes by eight leading railroads, and with surprising good results. The cars leased to the carriers at about $140 per month, returned at least $500 in revenue monthly, and in some cases as much as $2000. Damage claims that have cost more than $125 million to American railroads annually, may be virtually "wiped out" by the use of these box cars, and their "shock absorber" trucks permit them to operate readily at passenger train speeds. Indications are that in near term years, up to 100,000 of the cars will be built and leased to carriers, with their construction financed by the Prudential Insurance Company of America. Fourteen railroads have now adopted them.

The **American Gas and Electric Company** has started construction of a new $45 million generating plant about 47 miles downstream from Zanesville, Ohio on the Muskingum River, noted for its watershed developed for flood control, irrigation and industrial purposes. Initially, the new plant will consist of two 200,000 kilowatt units, totalling 400,000 kws., and they will rank among the largest and most efficient generating plants in the country. The Muskingum River facility will be the second 400,000 kw unit to be started by a subsidiary of American G & E within six months, the other being represented by a plant near Charleston, West Virginia. It is anticipated that defense industries will readily absorb the increased output of these new generating units.

The world's largest single unit for manufacturing ethylene will be built at Port Arthur, Texas, by **Gulf Oil Corporation.** Ethylene is a gas used extensively as a raw material in making chemicals valuable for national defense, such as ethyl alcohol, styrene, glycol, vinyl chloride, tetraethyl lead and cellulose acetate, as well as acetic acid. The new facilities will produce nearly 2½ billion cubic feet annually, increasing the total U. S. production of this highly important chemical component by approximately 12%.

Monsanto Chemical Company has informed the Atomic Energy Commission it is ready to go ahead with a study of the feasibility of developing and operating nuclear reactors for the production of pluto-

nium, and with the ultimate goal of producing electric power. The company proposes to defray the cost of these studies by its own staff or collaborators. Monsanto's announcement follows a statement from the Commission that suggested conditions under which it was willing to go forward with the first of several steps formerly proposed by the company.

In order to realign executive personnel to meet new conditions of manufacturing and distributing in a defense economy, **Johns-Manville Corporation** has elected three new directors, a new Vice Chairman and a new President. While Lewis H. Brown, retains his post as chief executive officer, Clifford F. Rassweiler has been appointed Vice Chairman with full responsibility to organize and direct a new planning board. The new president is L. M. Cassidy, formerly vice president in charge of sales, and now a new member of the directorate. A. R. Fisher, vice president for production, also becomes a director. These allocations of new responsibility come at a time in the history of this 93 year old company when its 1950 sales reached a record high of $200 million.

As a result of the first four weeks tests of Phonovision, E. F. McDonald, president of **Zenith Radio Corporation,** has declared that he and his associates are almost afraid to believe the results of this, their first acid test of the system. It was found that the average test family "went to the movies at home" during the period about twice a week. If all the 10 million families who now own TV sets proved as willing to see feature films on them as often as the 300 test families, revenues of more than one billion dollars a year would result, but in the second and third months of the test it would not surprise if attendance declined somewhat. Nine out of ten of the families, though, agreed they preferred a good movie on Phonovision at home rather than seeing it in a theater.

Celanese Corporation of America will shortly begin construction of a large petro-chemical and cellulose acetate plant in the Edmunton area of Alberta, which should materially accelerate the defense program of both the United States and Canada. A new Celanese affiliate, Canadian Chemical Company, Ltd., has been formed to build and operate the plant on a site already selected. Tapping the natural gas resources of the rapidly expanding petroleum fields in Alberta, the Canadian company will manufacture many basic organic chemicals never before produced in that country. The company will utilize the very successful Celanese process of direct oxidation of petroleum hydrocarbons. Columbia Cellulose Company, Ltd., another affiliate of Celanese, will supply wood pulp to manufacture cellulose acetate.

As a result of experience during World War II, **American Can Company** in 1946 started a research program designated as "Operations Survival", in anticipation of another period when tinless cans might have to be used. Now that the NPA has restricted the use of tin in metal containers to perishable food packs, a long list of other canned products will have to be packed in black iron cans or be limited in output. As result of studies by "Operations Survival", though ,the company has made possible pilot-line operations cans made of tinless steel and low tin-bearing solder at speeds comparable to that at which tin plate cans are made. Tin-free solders have also been developed that give every promise of adaptability to universal use.

B. F. Goodrich Chemical Company's "Hycar" latex, widely used to impregnate cloth, fibres, paper and leather to resist oils, gasolines, fats and other items, has been utilized to produce an interesting new fabric by Loren Products Corporation, New York. This tough, long wearing, nonwoven fabric, termed X-Lint, looks, feels and absorbs water like chamois, but wears three times as long as the natural product. Impervious to salt water, it becomes the first practical "chamois" for marine use, and householders using it merely have to wet, wring out and use it, with no bothersome lint to contend with as when common cloths are employed for cleaning purposes.

During 1950, **General Electric Company** broke its all-time record for producing large turbine generators. The company's new $30 million turbine plant at Schenectady, N. Y., in its first full year of operation produced units with a combined capacity of 2,866,000 kilowatts. Almost all of the 1950 output went to utilities throughout the United States. Because of the tremendously increased demand for electric power since the start of the Korean crisis, the company's backlog orders for these huge generators are mounting. If certain critical material are available in sufficient quantities to meet planned schedules, General Electric anticipates that the 1951 output of large units in Schenectady and of smaller ones in its Pittsfield and Fitchburg plants will be materially greater than in any year of the company's history.

Major General Hugh J. Casey, former chief engineer for General of the Army Douglas MacArthur, has been appointed as assistant to the president of **Schenley Laboratories, Inc.** General Casey's distinguished record in directing the operations of 300,000 engineer troops at the height of the Pacific campaign during World War II, and later as supervisor of the $600 million reconstruction program in Japan and Korean provides him with an exceptionally strong background.

The new Bank Wire service of **Western Union Telegraph Company,** permitting the fast transmission of written communications between a long string of important banks throughout the country, recently proved its efficiency in an interesting way. When the suspicions of a Newark, N. J. bank were aroused over the ownership of some bonds, an alert bank officer that telephoned several bank trustees for the issue to check up, was requested to write rather than phone about the matter. Resort to the Bank Wire to effect quick action brought word that every one of the bonds were stolen in a distant city some months earlier. The bank's customer was an innocent party, and was grateful for the speedy information that prevented his intended purchase of the securities.

United States Rubber Company has developed and started large scale production of a new line of specialties made of both plastics and rubber for the $75 million yearly market in textile mill supplies. The new line consists of nearly 30 types of specialties for yarn carrying operations and textile machinery, and has resulted from a five year extensive research program. A new plastic material namel "Uscolite" will feature strongly in the new line.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Koppers Company, Inc.

"How is Koppers Company affected by the present mobilization plans? Have you any data on recent operations?

D. E., Scranton, Pa.

Net income of Koppers Company, Inc., during 1950 was $11,615,498, after provision for income taxes. The 1950 net income was equivalent to $6.81 per share on the 1,617,125 common shares outstanding.

The 1950 income figure compares to earnings of $7,111,997, or $4.03 per share on the same number of shares of common stock in 1949.

Sales and other receipts during 1950 amounted to $213,791,687 as compared with sales of $192,314,685 in 1949.

Heavy demands are being made on the company's Engineering and Construction Division and the Chemical Division, formed only four years ago, has become an important factor in the company's business.

As the demand for some of company's chemical products seems assured, either in peace or war, some expansion in the Chemical Division is projected for 1951.

The effect of the government's mobilization plan on Koppers production will relate to volume rather than to changes in kind of items supplied. Although some defense contracts were received from the government after the outbreak of the war in Korea, the effect of these contracts in 1950 on sales and profits was slight. At the year-end, the situation had changed somewhat and the company was being called upon increasingly to produce goods and provide services essential to other manufacturers of vital defense materials.

Koppers has already taken steps to place in effect appropriate provisions of its mobilization plan adopted in 1947. Other provisions of the plan including some relating to sales, production, security and personnel are being revised to keep step with the Nation's march toward more complete mobilization, and will be activated as required.

Dividends including extras totaled $3.00 a share in 1950 against $2.00 in 1949.

Loew's, Inc.

"Please present recent comparative earnings of Loew's, Inc. and working assets position."

C. D., Saginaw, Michigan

For the fiscal year ended August 31, 1950, Loew's, Inc. showed net income of $7,854,454, equivalent to $1.53 per share, after depreciation, taxes and all other deductions. This includes $880,020 profit after taxes realized from the sale of capital assets.

Corresponding net income for the previous fiscal year was $6,744,761, equivalent to $1.31 per share, and included earnings of $525,855 (not previously accrued) of an allied corporation now wholly-owned and $460,460 due to reduction of prior years depreciation on certain properties to conform to rates fixed by the Internal Revenue Bureau.

Loew's share of net income of partly owned subsidiaries not distributed as dividends to parent company amounted to $274,118 in 1950 compared with $725,581 in the previous fiscal year.

Current and working assets at August 31, 1950 totaled $114,161,876 compared with $116,299,820 for the previous fiscal year and current liabilities totaled $24,967,018 compared with $22,965,982.

For the twelve weeks ended November 23, 1950, Loew's, Inc. showed net income of $1,994,954, equal to 39c per share, after depreciation, taxes and all other deductions. This includes $779,436 due to reduction of prior years depreciation on certain properties to conform to rates recently fixed by the Internal Revenue Bureau. The net income in the corresponding period of the previous year was $1,652,649, equal to 32c per share, when $697,230 profit after taxes was realized from the sale of capital assets. Loew's share of net income of partly owned subsidiaries not distributed as dividends amounted to $207,804 in the period compared with $165,489 in the corresponding period of the preceding year.

Dividends of 37½c quarterly were paid in each of the past two years.

The Glidden Company

"Can Glidden Company's main divisions be easily converted to war needs? What were recent sales volume, net income and dividends?"

J. E., San Diego, Cal.

Net sales of The Glidden Company for fiscal year ended October 31, 1950 totaled $188,607,966, an increase of more than $28 million over the total for 1949.

Net earnings, after all taxes and charges, amounted to $8,561,660, an increase of $2,369,737 over the 1949 total of $6,191,923, and equal to $4.11 per common share on 1,971,623 shares. Profit in 1949

was equal to \$3.23 per share on 1,780,536 common shares.

Net worth of the company increased nearly \$10 million during the 1950 fiscal year, from \$56,837,492 to \$66,194,159. This is almost double the \$35,115,554 net worth of the company in 1945.

A gain of more than 39% in net sales was recorded by Glidden in November and December, first two months of the company's new 1951 fiscal year, and a further gain will be shown for January.

Glidden has spent approximately \$20 million on construction of new plants and modernization of existing units since the close of World War II and all Glidden production and research facilities are in excellent condition for successful operation in either partial or total mobilization.

Company learned in World War II that all its main divisions can easily be converted to wartime status. Regular products have many military applications and company can readily manufacture many products needed in the mobilization effort.

All Glidden divisions showed satisfactory profits in 1950. The Paint & Varnish Division, in fact, attained the highest sales and profits in its history, due largely to the outstanding success of Spred Satin, the unique washable interior paint with a synthetic rubber emulsion base. The Soya Products Division research laboratories made remarkable progress during the year in the development of hormones and steroid compound from soybeans.

The Durkee Famous Foods, chemical and pigment, vegetable oil and naval stores divisions also showed substantial gains last year. In addition, the company's wholly-owned Glidden Company of Canada showed a 25% increase in sales and a 35% increase in profits.

Dividends in 1950 totaled \$2.10 a share against \$1.60 in 1949.

(*Continued on page* 584)

How Dependable Are 1951 Dividend Increases?

(*Continued from page* 545)

750,000 tons within a year or so, the outlook for continued growth is encouraging.

For a concern to lift its quarterly rate in two successive periods is an unusual occurrence, but United Carbon Company recently achieved this distinction. During the first three quarters of 1950, the company maintained a regular rate of 50 cents per share, raising it to 60 cents in December and again to 62½ cents payable March 10, 1951. This double expression of confidence by the directors stems partly from satisfactory earnings last year and partly because of the encouraging outlook for 1951. Sales of \$21.5 million for the first nine months of 1950 were just equal to those of all 1949, and while heavier taxes and operating costs reduced margins, net earnings were at an annual rate of \$4.20 per share and doubtless improved in the final quarter.

About 70% of the company's carbon black output is used for the manufacture of synthetic rubber, production of which will rise sharply as the defense program expands. United Carbon's dollar volume derived from sales of natural gas accounts for about 30% of total sales, and firm contracts assure increased volume in the current year. Ample supply of the gas for conversion into carbon black for sale to outsiders is assured by control of more than a million acres of gas and oil lands. As demand for carbon black for inks, dyes and paints should continue strong this year, and the company operates 15 strategically located plants, chances are excellent that 1951 earnings will amply cover dividends at the higher rate.

Early this month the directors of May Department Stores Company lifted the quarterly dividend rate to 90 cents a share from 75 cents, with assurance that if a proposed stock dividend of 100% is approved at a special meeting in June, an initial payment of 45 cents a share will be declared on the enlarged capitalization. This experienced operator of prominent department stores in numerous centers earned \$2.21 per share for six months ended July 31, 1950, compared with \$1.55 a year earlier, and must have considerably benefitted from the post-Korea boom in the normally best months that followed. Accelerated buying by customers in the final month of the fiscal year ended January 31, 1951, lent assurance of high level earnings; moreover, a high exemption base for EPT could have made the company immune to this impost. Net earnings of about \$6.50 per share are estimated for the latest fiscal year. In view of the excellent outlook in the current year, the enlarged quarterly payments appear entirely conservative and dependable.

Although net earnings of Louisville & Nashville Railroad last year spurted to \$10.39 per share compared with \$3.51 in 1949, dividends in 1950 totalled \$3.52 per share, the same as in the previous year. Stockholders in this well managed carrier, though, on March 12 will receive a regular quarterly dividend of \$1 per share with full confidence that the new rate can easily be maintained, if not improved, in 1951. In the December 30 issue of our Magazine, we commented on the encouraging outlook of this road and the well indicated potentials for higher dividends. As we pointed out in that study, L & N's gross revenues should expand in the current year and operating margins should widen by large-scale operating economies now effective. With a favorable tax position, net earnings should continue to rise, and stockholders may continue to receive more liberal treatment in some form.

Westinghouse Electric

The recently increased 50 cents quarterly dividend declared by Westinghouse Electric Corporation was undoubtedly prompted as much by encouraging future prospects as by satisfactory 1950 results. Although heavier taxes last year may have slightly reduced net earnings from the \$4.95 level of 1949, this is by no means certain. In any event, 1950 total dividends of \$2 per share, including a 40 cents year-end extra, probably represented only about 43% of net earnings, leaving room for increased liberality.

Looking ahead, the diverse and highly specialized output of this company, especially of heavy electric generating equipment and a wide range of electronics, is certain to sustain high-level sales during 1951. Even though narrowed margins on defense business and the impact of increased taxes may reduce net earnings somewhat, the directors evidently feel pretty sure that operations can readily support an annual \$2 dividend rate. The matter of a possible year-end extra this year can only be determined when final results speak for themselves.

What About the Tobaccos?

(*Continued from page* 563)

31, 1950, was encouraging, and it is known that production of Philip Morris cigarettes increased by 19.5% last year to 23.5 billion units. In the nine months period cited, dollar volume of $232.9 million was 21% above a year earlier, but increased taxes brought net earnings to $5.09 per share compared with $5.49 in the same interval of 1949, after allowing for EPT.

A sharp rise in earnings by this company in the past few years has made it rather vunerable to excess profits taxes, and since a 47% income rate is now effective, net earnings for the fiscal year should be about $6.75 per share compared with $7.26 in 1949. Unless the impact of heavier taxes proves too severe, though, continuation of the 75 cents quarterly dividends paid last year could be expected, not to mention a possible 75 cents extra year-end. The steady increase in sales of Philip Morris cigarettes having necessitated night operations for a number of months past, the management last August announced plans for construction of a fourth plant to cost around $11 million. This enhances prospects for continued growth in volume.

In the first nine months of 1950, sales of P. Lorillard Company were reported as $123.5 million, 8% above the year before in the related span. Net income of $2.02 a share was three cents higher. Although at this writing the annual report is not available, a spokesman for the company towards the end of December reported volume as excellent in the final quarter and that it looked as if net earnings might be about $2.78 per share. If so, both volume and net profits established new high records, although earnings were only slightly above the $2.73 per share for the year before.

A boost in the wholesale price of cigarettes last year, together with larger volume, effectively offset the weight of heavier taxes, it would seem, but their impact may be somewhat more severely felt in the current year. Lorillard's "Old Gold" cigarettes increased in popularity last year, with unit sales rising to 20 billion for a gain of 11.7%. As the uptrend will likely extend into 1951, the company's outlook for relatively stable earnings is promising, and annual dividends close to the $1.85 per share paid in 1950 may be looked for. Strong finances permit the distribution of a liberal share of earnings.

Cigar smokers last year consumed about 5.5 billion units that represented around $550 million at wholesale. There are so many competitors in this field, though, that aside from Consolidated Cigar Company, few of the leaders made very satisfactory progress last year. Shortages of essential leaf tobaccos, excise taxes and price competition have hampered operations in this division of the tobacco industry. Because of the well sustained rise in national income, though, the popularity of 8 cents cigars is lessening, and margins consequently may widen in the current year as more higher priced items are purchased. Trade experts also predict that about 300 million more cigars will be produced in 1951 to meet demand.

Consolidated Cigar Company, a leading manufacturer of medium and low priced cigars and an important grower of its own domestic tobaccos, enjoyed nearly uniform sales in all quarters of 1950, with a moderate uptrend in the second half year. Total volume of $50 million rose about 6%, while net earnings advanced to $7.26 per share from $6.77 (adjusted for a 20% stock dividend in March, 1950). Since this company enjoyed quite high earnings in the 1946-449 period, its exemption base for excess profits taxes is relatively high. The wide spread between earnings and 50 cents a share quarterly dividends promotes confidence in their stability and suggests room for improvement in the current year.

Earnings of neither Bayuk Cigars Company nor General Cigar Company covered their dividends by more than a scant margin last year, and with heavier income taxes to meet in 1951, the outlook for stable payments is none too encouraging. A prospective improvement in volume may change the picture somewhat, though, and in both cases operating earnings could substantially expand before becoming subject to excess profits taxes.

The traditionally stable operations of the leading snuff manufacturers are unlikely to undergo much change in 1951. An accumulation of lush cash resources by American Snuff Company and U. S. Tobacco Company, leaders in this field, enable them to pay out an exceptionally large portion of net earnings and to maintain stable dividends. As both concerns have a relatively good exemption base for EPT, this impost only moderately reduced their earnings last year.

A Study of Stock Splits

(*Continued from page* 552)

In the aircraft group, Grumman shares have always been popular because of an uninterrupted dividend record since 1933 and a bright outlook for well sustained business. As long ago as last March, the company had unfilled orders of more than $200 million, equal to two years volume, and since Korea they have substantially increased. Although the shares were rather moderately priced at 41 prior to the latest subdivision, the split brought an early quotation of 20. More recently, speculative fervor has pushed the price to up 25⅜ for a gain of 23.7%, and perhaps more effectively than had there been no split.

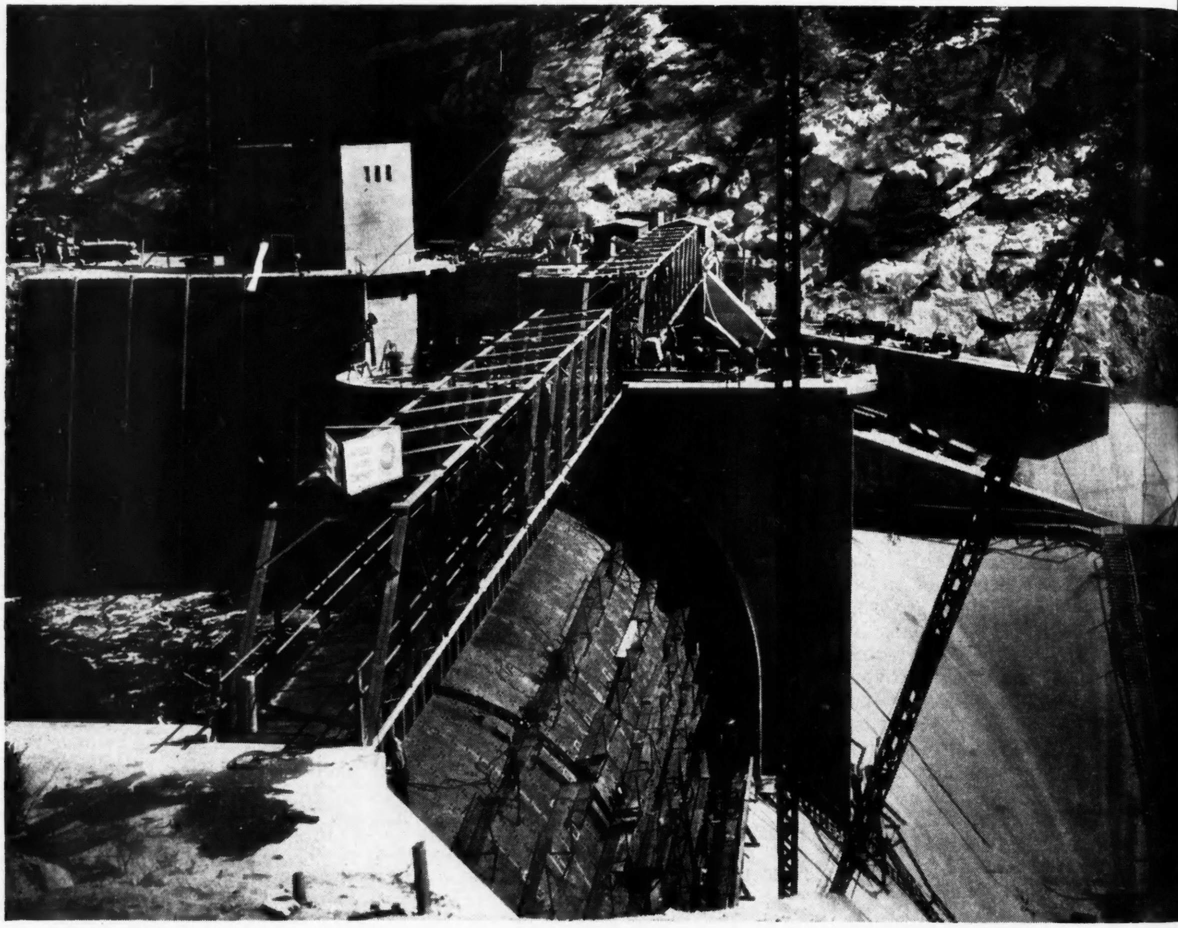
Among companies whose recent stock splits have rather obviously been motivated by a desire to encourage new investors by an automatic reduction in the price of their shares is Minnesota Mining and Manufacturing Company. Effective January 29, 1951, these shares were split 4 for 1 and rather logically so, because prior to the action they were selling close to 165. Their recent price of 41⅝ is fractionally above the immediate post-split level, but given time they may attract increasing demand. What seems to hold them down at present is a rather unfavorable EPT position.

B. F. Goodrich common also was selling well above par before the shares were split 3 for 1 on January 22, as evidenced by a quotation of around 136 at the time. The automatic reduction in the price to around 45⅜ has been followed by a modest advance, but nevertheless evidences that demand for this popular stock remains substantial.

Doubtless the management figured that investment demand can be more effective at a lower price level. Moreover, earnings and

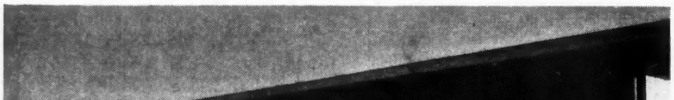
(*Continued on page* 578)

Only STEEL can do so many jobs so



ACTION IN CALIFORNIA. On the north fork of the Feather River in California, Pacific Gas and Electric Company has placed two new dams . . . Cresta Dam and Rock Creek Dam. The huge drum gates for these dams, and the bridges directly above them, required 4,380,000 pounds of steel. They were fabricated and erected by United States Steel.

NEW SCHOOL HAS 2-WAY PROTECTION. No matter how absorbed these children become, they can't rush into the path of passing traffic, because they are protected by sturdy, long-wearing Cyclone Fence. And the fence not only keeps the children inside, it keeps undesirables out.



WASH DAY IS NO HEADACHE in hospitals, hotels, restaurants, clubs, or laundries where equipment is made of U·S·S Stainless Steel. For stainless steel means easy cleaning, corrosion resistance, good looks and long life. Lucky that United States Steel is big enough to turn out steel for washing machines as well as warships, for toasters as well as tanks.

AMERICAN BRIDGE COMPANY • AMERICAN STEEL & WIRE COMPANY and CYCLONE FENCE DIVISION • COLUMBIA STEEL COMPANY • CONSOLIDATED WESTERN STEEL CORPORATI
UNITED STATES STEEL COMPANY • UNITED STATES STEEL EXPORT COMPANY • UNITED STATES STEEL PRODUCTS COMPA

dividends have been impressively high and the desire to bring them down to a lower level, on a per share basis, is understandable for various reasons. The stockholder can only benefit therefrom, in terms of greater marketability of the stock, which in the long run might make for better appreciation potentials.

Sharply improved earnings by many of the nation's railroads during 1950 and prospects for continued gains in 1951 have been reflected by a notable uptrend in rail stock prices. Recent proposals to split the shares of two leading railroads doubtless has further stimulated interest in this group. In the case of New York, Chicago & St. Louis Railroad, recently selling at 234 as a result of reported earnings of $55.88 per share for 12 months ended December 31, 1950, the 5 for 1 split would be logical, to say the least.

The same holds true of Atchison, Topeka & Santa Fe, with a proposed 2-1 stock split based on a recent quotation of 177½ and 1950 earnings of $31.29 per share. In both of these cases, large outlays for cost-saving diesel locomotives, new freight cars and road improvements, plus the generally favorable outlook for the railroads, has boosted earnings and earnings potentials to a point disproportionate to their capital structures.

Retention of a major portion of earnings by a number of big oil companies in postwar has not been attended by a corresponding increase in the number of their shares outstanding, although their surplus accounts have expanded substantially and their dividend policies latterly have been moderately liberalized. Hence it does not appear in any way unusual that half a dozen large oil companies recently have proposed to split their shares, including such outstanding leaders as Standard Oil of New Jersey, Standard Oil of California, Texas Company, Gulf Oil, Phillips Petroleum and Plymouth Oil. Reflecting excellent earnings, shares of all these concerns have advanced to an overall range of from 61 to 103¾ and thus paved the way for split-ups.

Elsewhere it is interesting to note a recommendation by the directors of May Department Stores for a 100% stock dividend in the near term. While a recent price of 69½ for the stock of this company might not be termed fancy, a prospective adjusted price of around 35 undoubtedly will broaden the market for this sound equity. In proposing the stock dividend, the directors stated that if their suggestion is approved by the stockholders, a quarterly dividend of 45 cents per share would be declared on the new stock versus 75 cents presently paid on the smaller number of shares outstanding. The earning potentials of this leading department store chain in 1951 are unusually bright and apparently have encouraged the action taken by its directors.

Stock splits doubtless will continue as long as the business and especially the stock market boom lasts. One reason is that split-ups not only tend to expand public ownership of the shares, but they also flatten out exaggerated market movements and tend to assuage the feelings of those who regard high corporate profits as something not in the public interest. However wrong the latter notion may be, it is far from ignored by corporate managements. Similarly, even a corporation's customers look at high per share profits (without regard to total profits in relation to sales and invested capital) and sometimes wonder why sale prices are not reduced. Split-ups furnish a ready solution, bringing down

share prices, per share earnings and dividends. They are an effective way of capitalizing enhanced stature and earning power.

In the past it frequently proved true that a wave of stock splits heralded the approaching peak of a bull market and therefore was habitually regarded as the harbinger of an early turning point. To do so today might turn out to be decidedly premature, however. After all, the basic economic outlook hardly permits the assumption that a turn in the business cycle is near at hand; instead the outlook points to well sustained boom conditions for an indefinite period. Moreover, investment demand for equities is broader and more insistent than ever before; in the circumstances it is quite natural for managements to be wanting to bring the price of their company's shares down to a more popular level.

Re-Appraisal of the Railroads

(*Continued from page* 558)

Florida, helps explain gains recorded by Atlantic Coast Line. Progress has been accelerated by management's decision to shift almost completely from steam to Diesels for motive power and to improve facilities otherwise. Expansion of fertilizer, chemical and cement production in Florida and prosperity enjoyed by paper and container manufacturers in the road's territory have contributed to traffic growth. Net income rose last year to an equivalent of $15.51 a share from $9.39 a share in 1949. This was the best showing since 1944, when earnings were reported at $19.54 a share. In recognition of the reassuring outlook, the management recently increased the quarterly dividend to $1.25 from $1 a share.

Baltimore & Ohio: Dependent largely on heavy industry, the B. & O. barely escaped a drastic reorganization that threatened extinction of its preferred and common shares as a consequence of the depression 20 years ago. Pickup in business incident to the rearmament program in 1940 developed just in time to permit a less drastic readjustment under which fixed interest charges were reduced. Through careful diversion of wartime earnings to debt reduction and to improvement of operating facilities, the management has been able to get the road "back on its feet." It is well situated to benefit from the current armament activity. Net income rose sharply last year to about $15 million before sinking fund charges, from about $6.9 million in 1949. Preferred dividends have been restored to a regular $4 rate, but the outlook for common distributions is uncertain. Some year-end payment is a possibility.

Chesapeake & Ohio: Although all indications point to steady traffic volume for C. & O. this year, as a result of prosperity in the soft coal industry, earnings may be handicapped by excess profits taxes. This is one of the comparatively few carriers seemingly vulnerable to the wartime levy. The road's exemption is estimated at about $3.40 a share. After provision for EPT for 1950, net income amounted to $4.25 a share, compared with $1.36 for 1949. Higher normal and surtaxes and a full year's impact of EPT may tend to limit improvement for C. & O.

Chicago, Milwaukee, St. Paul & Pacific: Heavier movement of military supplies to the Pacific Northwest and improvement in

lumber business contributed to excellent progress of the Milwaukee last year. The transportation ratio, which had been unduly high through the postwar period, dropped noticeably. Further progress in this direction is anticipated with acquisition of additional equipment. The preferred stock has been restored to its regular $5 annual rate and dividends have been initiated on the common. Payments on the junior shares this year should exceed the $2 a share distribution of 1950.

Chicago, Rock Island & Pacific: A prolonged labor dispute hampered Rock Island's 1950 operations to such an extent that net income after sinking fund charges dropped to less than $17 million from about $17.4 million in 1949. Although this showing was disappointing to the management, it was sufficient to maintain the usual $3 annual dividend on common shares and even to suggest the possibility of a higher rate this year if there should be no recurrence of strike conditions.

Great Northern: High rate of iron ore movement to meet requirements of the steel industry accounted for sharp recovery in earnings of Great Northern after a poor start last year. Net income rose to the equivalent of $9.11 a share, compared with $6.05 a share of 1949. This road and the Northern Pacific, which also experienced an excellent year, control Chicago, Burlington & Quincy, one of the leading agricultural carriers of the Mid-west. Prospect for continued active demand for iron ore and promising outlook for agriculture are favorable factors, suggesting that the recently restored $1 quarterly dividend can be maintained. Payments last year came to $3.50 a share.

Illinois Central: Benefits of improved efficiency and expansion in industrial traffic accounted for outstanding progress of Illinois Central. Persistent reduction of fixed charges in recent years also paved the way for flow of earnings to stockholders. Net income last year rose to $20.83 a share from $11.20 in 1949. The fact that excess profits impact proved no heavier suggests that earnings of this carrier may not be as vulnerable to wartime levies as had been feared. A more liberal dividend than last year's $3 annual rate would be a reasonable hope.

New York Central: Although New York Central operates in a highly industrialized region, it is more vulnerable to truck competition than many other roads and high terminal costs have proved a severe handicap. Progress in Dieselization has been slower than that of some other roads. Net income last year rose encouragingly to about $2.84 a share from $1.51 in 1949, but considering the potentials inherent in the persent business expansion, the results were disappointing. Future improvement, however, is not impossible.

Union Pacific: As one of the leading transcontinental carriers, Union Pacific has experienced outstanding improvement in operations incident to heavy movement of military supplies and industrial freight to the Pacific Coast. Net income rose last year to the equivalent of $14.80 a share from $10.26 in 1949. This showing persuaded directors to declare an extra dividend of $1 a share in addition to the usual $1.25 quarterly distribution payable January 2. Indications point to dividends of at least $6 a share this year, compared with $5 in 1950, and there would seem to be reasonable hope of a higher regular rate later in the year.

Prospects for Southern Pacific and for Southern Railway were discussed at some length in recent issues of this publication. Both roads have been important beneficiaries of the armament program—the former in movement of supplies to the Pacific and the latter in increased industrial activity in the South. The outlook is highly favorable for continuance of these constructive factors.

For Profit and Income

(*Continued from page* 565)

$12.8 million. Some time ago Atlas acquired a controlling interest in Barnsdall Oil, which it disposed of profitably in a merger deal with Sunray. The Atlas holding in Atlantic Refining, amounting to less than 6% of the common stock, is obviously not a controlling one. So what the Atlas game is in this instance remains to be seen.

Selection

Some stocks with good pre-tax earnings prospects and good EPT

exemptions are: Schenley Industries, Hiram Walker, Hilton Hotels, General American Transportation, Walworth, Mack Trucks, and Phelps Dodge. One of the best utilities from a tax angle—or any other angle—is American Gas & Electric, exclusively an electric company, despite the "gas" in the name. Of course, practically all oil companies have a high degree of tax shelter. The trouble here is that, while prospects are definitely favorable, the stocks as a rule are much above all former market highs.

Outlook for Utility Earnings

(*Continued from page* 560)

Detroit Edison is one of the premier utilities as attested by its relatively low yield of only about 5.3%. The stock has moved in a comparatively narrow range in recent years and the dividend payout is quite conservative (about 54%). The company has recently announced stock financing through subscription rights on a one-for-ten basis at 20, without underwriting.

Indianapolis Power & Light does not rank with the big leaders but is a sizeable company. The stock equity has been around 25%, but if intangibles and plant acquisition adjustments were eliminated, it would be reduced to around 17%, based on the 1949 balance sheet. On the other hand, the dividend payout is relatively very low—only about 54% of earnings — indicating relative safety for the $1.80 rate. Reflecting these various factors, the yield is about 6%.

Niagara Mohawk Power is the largest U. S. utility in KWH sales, but ranks lower in revenues. It represents a merger of the subsidiaries of the old Niagara Hudson Power Company, now dissolved, and it serves the greater part of western upstate New York where industrial growth has been favored by cheap Niagara power.

The company in 1950 was able to maintain earnings at about the 1949 level, and hopes to continue to maintain them around $2 even with a 50% tax rate. The balance sheet is on a very conservative basis, though common stock equity is on the low side if the convertible preference stock should be considered as a senior issue (eventually it will probably be converted into common stock). The stock returns a generous yield in relation to other companies of its size—reflecting its somewhat unseasoned character and some future dilution of earnings when the preference stock is converted.

Northern States Power is the lowest priced stock among the large operating company issues. Including subsidiaries, the service area blankets large parts of Minnesota and Wisconsin, with some operations in neighboring states. In Minnesota the parent company benefits by the absence of state regulation, and the rate increase put into effect last year apparently encountered no opposition. 1950 operations were somewhat handicapped by initiation of a substantial pension system for employees. The equity ratio is about 30% (including moderate intangibles). Dividend payout is slightly above average, accounting for the rather generous yield.

Ohio Edison is another former Commonwealth & Southern subsidiary, which increased its size substantially a year ago by taking over Ohio Public Service from the Cities Service System. Due perhaps to the merger, Ohio Edison is paying a moderate excess profits tax. Despite this, earnings of $2.98 were reported for 1950 compared with $2.95 in the previous year. The $2 dividend thus seems adequately protected against further tax inroads.

Pacific Gas & Electric ranks number three in revenue size and has the largest construction program of any utility. However, partly because of the long drought and the annual equity financing, share earnings have continued low in relation to the historic $2 dividend. For a long period of years the company was content with a less-than-average return on investment, but in the past two years it has sought and obtained several rate increases, one of which just went into effect. The companys biggest handicap is the rather low equity ratio (for a company of its size) of about 25%. In order to maintain this ratio and carry out its big program, new stock must be issued annually which means a constant dilution of earnings. Eventually, with luck as to rainfall, the company may be able to restore earnings to around the $3 level but for the present this does not appear likely.

Philadelphia Electric may probably be classed with the old-line

companies, although some years ago it was a subsidiary of United Gas Improvement. In general, the dividend policy has been conservative, with last year's moderate increase justified by higher earnings. The equity ratio is about average—around 33% or better. With the aid of a rate increase, the company made a particularly good showing in 1950.

Southern California Edison has enjoyed a somewhat better earnings record than Pacific Gas—though it has set aside large amounts for special expenditures. The company has obtained some outside income from its oil properties. The stock equity is slightly below average, and this fact coupled with the somewhat erratic earning-power probably accounts for the above-average yield.

Brooklyn Union Gas, large oldline manufactured gas company now converting to natural gas, has run the gamut of high and low earnings in recent years. Back in 1932—the year of the big depression — the company earned $6.79 and paid $5. Earnings then dropped sharply and dividends were irregular. In 1947 the company actually went into the red—a rare occurrence for big utilities —only to come back with a rush and earn $4.32 in 1949, with the help of rate increases and lower fuel costs. With the introduction of natural gas, 1951 should be a good year despite taxes.

Peoples Gas Light & Coke of Chicago is the leader of the oldline retail gas companies—it is now also in the wholesale business through its pipe line interests. Market interest is reduced by the high price of the stock; a split-up is said to be unlikely for legal reasons. With increasing amounts of natural gas, earnings have improved and more liberal dividends have been paid. The company is conservatively capitalized. The low yield seems due to the moderate dividend payout, and anticipation of higher pre-tax earnings in 1951 with the larger supply of gas.

As initially indicated, higher straight income tax rates pose a far more potent threat to utility earnings than excess profits taxes from which most companies will be exempt, or at worst only mildly affected. To see how higher income taxes rates might affect earnings, we have—in the appended table—adjusted 1950 net for the 47% tax rate which will be effective this year, and also for the 55% tax rate proposed in the new revenue bill. Comparison of figures will show that in most cases dividends will still be adequately covered but there are exceptions, and the 55% rate would be particularly onerous. These calculations however do not allow for an anticipated increase in pretax earnings, resulting from expanded facilities, which in some cases might substantially offset higher taxes. In this respect, only results will tell.

Today's Defense Expansion—Tomorrow's Population Necessity

(*Continued from page* 547)

that of 1950. And if temporary defense-induced shortages should again create substantial pent-up demands, chances are that there may again be some bulges in demand akin to, though not as pronounced as, those we witnessed during the postwar boom phase. But that of course remains to be seen.

To return to our main premise, chances are that industrial expansion for defense may well come in handy later to serve expanded civilian needs even if arms business should contract markedly in the future. Certainly, despite the current emergency, there is no threat of a static economy, particularly if we preserve the spirit of enterprise which in the past has always overcome obstacles and enabled our economy to rise to new heights. In the present situation, much more than the question of a static economy is at stake. Future progress depends as much upon constant improvement in the productivity and efficiency of our industries as upon the defense program itself.

More likely, the bogey of a "mature economy", the fear of creation of excess capacity as we gird ourself for preparedness will prove as unjustified as in the past when invariably the underlying strength and flexibility of our economy was grossly underestimated.

In preparing to meet extraordinary conditions, business and industry plan to spend a record $21.9 billion for expansion in 1951, 21% more than last year and 14% more than in 1948, the previous record year. Even after allowing

for higher prices, 1951 plant addition plans are 17% greater than in 1950. Whether these plans can be fully realized depends in part on the labor and materials supply; most likely some of them may have to be deferred, or dropped altogether in less essential lines. Most of these plans however tie in with defense business, already received or expected. Much of it will be undertaken in such vital fields as steel, aluminum, other nonferrous metals, in transportation and power generation—all of potential future peacetime value but highly essential to the defense effort.

Naturally, the need today is to put first things first, that is to place major emphasis on expansion of capacity for the production of those basic industrial raw materials and services which are of crucial importance both to a wartime economy and to an expanding peace-time economy. Steel and electric power are two outstanding examples, and large scale expansion plans are well under way in either field.

While there is little if any controversy over the need of boosting electric generating capacity (except as to the vital question who should do it—Government or private industry), sentiments in steel circles is divided as to whether the industry itself is overexpanding. There certainly is unanimity of opinion that there is no need for the Government to step in with loans to spur steel expansion.

The question whether or not steel capacity is being pushed to excessive heights under Government prodding can of course not be answered with assurance, one way or the other, at this time. Certainly as long as the defense effort lasts, steel will never become a drug on the market, in fact it will remain scarce as far as civilian usage is concerned until the expansion drive has been completed. And if, in a predominantly civilian economy some time in the future, the steel industry has to supply consumer markets as large as current population trends would indicate, it is hardly likely that expansion will prove excessive.

There is every indication that our rising population together with the wide distribution of income which has taken place in recent years, will mean a permanent stimulus to production in virtually every branch of business, a growing and longer lasting demand for goods and services that should not only sustain business in the future when military requirements may lessen, but should effectively cushion it in times of recession. In short, it renders our economy dynamic even without the stimulus of war production. It has put realism behind our postwar industrial expansion and is likely to do the same as far as defense expansion is concerned.

Apart from that, there remains the prospect that defense requirements, as previously hinted, will prove a long term rather than a temporary factor, and if this is so, a further broadening of our industrial base would seem the only sensible course quite aside from its military necessity in the event of total war. Barring such a war, it would prove difficult and hardly desirable to maintain an austerity economy for a protracted period. Certainly an era of civilian shortages would immensely complicate the task of throttling inflation. As it is, our growing population — even though the growth after 1955 may not continue at the present rate—is bound to minimize greatly the excess capacity risk frequently associated with industrial expansion for defense.

As I See It!

(*Continued from page* 537)

Kremlin's international policies.

From the western standpoint, it is a heartening development. It should go far towards eliminating the exaggerated fear of Russia, so great at times as to paralyze the will of resistance to communist aggression. Spreading Titoism should tell the Kremlin that they cannot fool all the people all the time, not even behind the Iron Curtain. Above all, let's not be fooled ourselves.

Answers to Inquiries

(*Continued from page* 574)

West Virginia Pulp and Paper Company

"What is the outlook for West Virginia Pulp & Paper Company in the current year? Have you their latest earning figures?"

P. D., Denver, Colorado

West Virginia Pulp & Paper Company showed net sales of $95,-464,000 for the fiscal year ended October 31, 1950, with net earnings for the same period, after taxes, of $12,262,000 or $12.93 per share. In 1949 the company realized $88,441,000 in net sales, with income of $10,842,169, including $1,931,151 from the sale of timber and lands, for a total of $11.45 per share.

Production in 1950 reached 685,400 tons of paper and paperboard, compared to 642,700 tons in 1949. The company also produced, in sales value, $5,693,000 worth of chemicals, compared with $5,614,000 in 1949.

During 1950 the company declared dividends totaling $5.00 per share on the common stock, $2.00 per share more than in 1949.

Capital Outlays

The total bill for capital expenditures during 1950 reached $15 million, bringing the grand total since the end of World War II to nearly $50 million. Money to meet these bills has so far come from money set aside for such purposes, particularly during recent years. Before this program is through, however, company may have to resort to outside financing to complete the program.

Paper and paperboard and many of the chemicals the company makes are service products, equally essential in a defense economy as in peace. What is shipped in paper boxes, and where or what is printed on paper, may change or new uses may appear, but as was ultimately recognized in World War II, the need for paper remains. While costs in 1951 will be high, prices will be controlled and taxes will certainly be heavy but in view of the strong demand for company's products, prospects for the current year are favorable.

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